

**Islamic Economics  
The Ultimate Alternative**



**Mohamed Ghanem**



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## System of Transliteration

Arabic	Symbol
ا	a
ب	b
ت	t
ث	th
ج	j
ح	h
خ	kh
د	d
ذ	dh
ر	r
ز	z
س	s
ش	sh
ص	s
ض	d
ط	t
ظ	z
ع	ʿ
غ	gh
ف	f
ق	q
ك	k

Arabic	Symbol
ل	l
م	m
ن	n
ه	h
ة	h/t
و	w
ي	y
ء	ʾ

Short Vowels	
ا	a
ي	i
و	u

Long Vowels	
آ	ā
ي	ī
و	ū

Diphthongs	
او	aw
اي	ay

This work adopts the transliteration system used by the Encyclopaedia of Islam except for Alif-lām "al". This has been changed to accord with pronunciation, a method known in Arabic as Lām ash-Shamsiāh and Lām al-Qamariāh, referring to the words "ash-shams" and "al-qamar". In the former, the letter lām is silent, but in the latter it is fully pronounced. In Arabic, "al" is used to denote the definite article. Thus, "kitāb" (book) means any "kitāb", but "al-kitāb" means a specific book. A dash is used between letters which are read separately, such as "al-Ka'bah". For simplicity, words that need "ī" at the end appear instead with an "i" (hence, Sha'rāwī instead of Sha'rāwī) and words that need "iy" appear instead with "iy" (such as "Islāmīyah" instead of "Islāmīyah"). The letter "ī" has been used for long vowels in the middle of words, such as "Ibrahīm".

## Preface

On a Sunday afternoon in early 1992 I found myself at the Regent's Park mosque in central London, having resigned my position as a derivatives dealer at a large City firm only a few days earlier. My attention was caught by a sign on the mosque notice board which read "Islamic economics lesson, Room 7, 2pm to 4pm". Well, it was 3pm, and I didn't believe in coincidences. In Room 7, I found a teacher, a whiteboard, and an audience of two. One was an elderly lady who had come in to shelter from the rain. She rearranged her carrier bags frequently but said nothing. The other was a Pakistani gentleman with white hair and a long beard who stood occasionally to give his own lecture on the evils of usury. This we tolerated with varying degrees of patience as the afternoon wore on.

After the lesson was over, I addressed the teacher privately. "Is it really worth giving these lectures?" I asked. He replied with a story from the life of the prophet Abraham. Once when Abraham was in the desert, Allah (s.w.t.) asked him to make the call to prayer. With no one in sight as far as the horizon, Abraham wondered what the purpose of such a call might be. Allah (s.w.t.) then informed him that if Abraham made the call, He would carry it to the people. "Man proposes, God disposes", as they say in England. And so, concluded the teacher, "If there was no one in this room, I would still give my presentation".

This was my first lesson at the hands of Mohamed Ghanem and I was captured by it. My materialistic City ways of thinking had suffered an immediate set-back, and a warm friendship had begun. In the years that followed, Mohamed's traditional Islamic thought helped me to realise that so much of what I had learned about economics in my formal education was nothing short of propaganda from one or other vested interest. As I spread my wings and read the works of others I did indeed find teachers who were more specialised or of greater practical experience than Mohamed, but none had the disarmingly simple logic that he could bring to a conversation on the subject of money.

His message was that the economic disease afflicting modern humanity is a disease of usury and money supply expansion, and it was a message that had made him some important enemies. Among them were many businessmen who had tried to Islamise both of these practices, and who had tried to institutionalise them in the form of Islamic banks. For the most part, such men ignored Mohamed's analysis. Even when his warnings of failure came to fruition, the larger Islamic conference organisers continued to promote the same tired old faces who had displayed no such wisdom, except in hindsight.

As the Islamic banking movement became increasingly co-opted by its interest-based counterpart, I too felt the urge to go on the campaign trail. Soon I began to accept engagements where I could challenge the orthodox financial beliefs of our time. As one would expect at the outset of a speaking career, I faced many empty lecture rooms, but thanks to Mohamed I carried with me the story of Abraham. I comforted myself with the knowledge that what Allah (s.w.t.) really cares about is not the result of our efforts, for this is in His hands alone, but rather the nature of the efforts themselves. Those who speak the truth, sincerely and with perseverance, should never be seen as having failed.

Over the years, Mohamed and I have discussed economic affairs together on many occasions, considering how Islam caters for the economic challenges of the modern age. Finally, more than twenty years after our first meeting, I have the great pleasure of editing a collection of the key ideas that have impressed me in his work. Here the reader will find essential and often simple principles that can be incorporated into any genuine attempt at financial reform. Together they form a beautiful tapestry of understanding that will help a wide range of readers deal with the complex world around us. May Allah reward the author for his efforts, and allow us to see some of his ideas in action.

Tarek El Diwany.

London, Ramadan 1434 AH, July 2013 CE.

## Introduction

Many are the motives that propel human action, among them instinct, propensity, need and desire. The diversity of human action produces both conflicting and shared interests, within and between societies, and their effect can be depicted on a multi-dimensional matrix whose axes include economics, politics, culture, and many others. Whether these axes accurately describe the nature of human action, or merely exist as academic tools for its analysis, is a question worthy of much consideration.

The essential forms of human activity have remained the same since the beginning of history. Eating, drinking, travelling, trading, marriage and reproduction, each of these has an economic, political and cultural dimension, and while a particular action may indeed have its primary impact in one dimension, it is nevertheless true that every action has an impact that is to some extent multi-dimensional.

Economics is one of the many branches of knowledge that concerns itself with human behaviour. In a large number of textbooks, the existence of an "economic problem" is given as a central justification for the study of the subject. This economic problem has been described as "the conflict between limitless desire for goods and services and the scarcity of resources" and from this basic premise one might easily conclude that there is some kind of systemic fault which the subject of economics aims to correct.

Moreover, the positive approach dominates the method of study in the field of economics at the expense of normative investigation. In other words, the modern economist prefers to ask questions of the "what is" variety, rather than of the "what should be" variety. But since economics is not a natural science where laws are fixed and experimental results are repeatable, one might well ask whether the use of techniques of investigation derived from the natural sciences is warranted. It can certainly be said that the use of positivism has been highly effective at keeping religious rulings out of modern economic discourse (the former being highly normative by nature). In contrast, Islamic economics



embraces the rulings of the Holy Quran and the sunnah of the Prophet Mohammed (s.a.w.) as its very foundation. These rulings and the related Islamic values are meant to organise all aspects of human activity, and the result of their application is a balance between human activities of all kinds and the physical world around us.

In order to help newcomers understand the various strands of Islamic economic thought, I have decided to divide this work into four parts. These incorporate much of the material compiled in my PhD thesis entitled "The Islamic Concept of Money and its Financial Implications" at the University of Wales in 2010.

Part One discusses the foundations of human science in order to prepare for the subsequent analysis of economic activity from an Islamic perspective. In order to investigate any human behaviour it is essential to have a complete perception about the world and the part that humanity plays in it. Islam provides the essential information that is needed to make sense of our place in the world, including how Allah (s.w.t.) created the first human beings and why he created them. Islam thereby tells us our purpose in life, and how we should achieve that purpose, with reference to the guidance sent by the prophets in words and practice.

Part Two introduces the "Islamic Monetary Triangle". Usury is shown to have become a system of control in one of the most important areas of human activity, despite its prohibition by at least the last three revealed religions. One of the reasons that most modern commentators have failed to understand the nature and full impact of usury in the economic system, is that it has been treated as something separate from the monetary system. Here, I link the prohibition of usury back into that system as part of a triangle in which the institutions of money and zakah inhabit the other two points. An understanding of the role played by any one member of this triangle will help us to understand the role played by the others.

In Part Three, I have introduced Transaction Map Theory. Verse 275 of Surat al-Baqarah in the Qur'an ("But Allah hath permitted trade and forbidden usury") reveals that there is a clear distinction between trade and usury, but until now many Muslims and non-Muslims do not

appreciate that distinction. Transaction Map Theory has been developed as a tool to clearly identify whether usury is present in any specific transaction.

Part Four addresses the issue of economic efficiency, which I treat as the ratio of economic output to input. Here, it is illustrated by reference to two of the most widespread practices in human history, namely the consumption of intoxicants and gambling. The huge industry that has established itself upon the foundation of intoxicants and gambling is seen as a negative outcome from the perspective of economic efficiency. Contrary to common treatment, its contribution to the value of economic output should be seen as a negative rather than as a positive.

I believe that Islam is Allah's religion, and that it is for all humanity. Where applied properly, it will achieve a position of justice and balance for individuals and for the society in which they live. I hope that this book will be a positive contribution on the subject of economics, in particular Islamic economics, and I pray that Allah (s.w.t.) will accept my efforts. May He guide me and all those who seek the truth.

Dr. M. A. Ghanem.

London, Ramadan 1434 AH, July 2013 CE.

## **Part One**

# **The Foundation of Human Science**

# 1 ISLAM AND THE HUMAN FACTOR

## 1.1 Introduction

In order to understand any aspect of human behaviour or phenomenon in society, one must first have an overall understanding of the universe and the part that humanity plays within it. For Muslims, Islam provides such an understanding through the guidance contained in the Qur'ān. This acts as the basis of a complete approach to every matter of importance to human beings. In this chapter, the broad dimensions of the Islamic approach are explored, the intention being to provide a foundation for the remainder of the book.

## 1.2 Religion and Human Infrastructure

Each human being is believed to be unique. The varying nature of mankind's physical, emotional and intellectual features, and of his abilities and skills, has produced a huge diversity of human activity. For this diversity to continue, mutual reliability is essential and this has encouraged the development of a super multi-complex structure within society.<sup>1</sup> Islam acknowledges the complexity of this human structure and describes its physical starting point in a clear statement that does not admit speculation. Allah (s.w.t.) says in the Qur'ān:

*O mankind fear your guardian Lord; who created you from a single person, created out of it his mates, and from them twain scattered (like seeds) countless men and women ...<sup>2</sup>*

The physical expansion of this complex human structure takes place through the process of reproduction. It is a process fraught with emotional, moral and ethical tensions, and from this starting point the complex dimensions of human life originate with their physical and metaphysical aspects. The essential importance of balancing the physical and metaphysical components of the human structure, and of

1 Giddens, 1995. See Chapter 1 and Chapter 4 in particular.

2 Qur'ān 4:1. I rely in this book mainly on the translation of the Qur'ān which is revised and edited by The Presidency of Islamic Research, Iftā', Call and Guidance in The Kingdom of Saudi Arabia.



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striving for its stability, is a common theme in the history of mankind irrespective of race or belief.

Relating this subject to Islam, one finds that although the word "Islam" itself means a combination of peace, submission, protection and greeting, the Qur'an equates it with the word religion ("dīn"):

*The religion ("dīn") before Allah is Islam (submission to His will).<sup>3</sup>*

and:

*If anyone desires a religion ("dīn") other than Islam (submission to Allah) never will it be accepted.<sup>4</sup>*

One also finds:

*... this day have I perfected your religion ("dīn") for you, completed my favour upon you, and have chosen for you Islam as your religion ("dīn").<sup>5</sup>*

Linking the word "dīn" to the word "Islam" allows the meaning of each word to reflect upon the other, but the word "religion" in the English language is not a synonym for the word "dīn" in Arabic. The Qur'an has described at least four important elements of this word, some of which are very different from the common understanding of the word "religion" among speakers of English. Each of these four elements is probably essential for the proper functioning of any human society, regardless of its belief system, and it is therefore important to describe them in a little detail, along with their implications at the individual and societal level.

### Comparing the Meaning of "Religion" and "Dīn"

As a starting point for understanding the exact meaning of the word "religion", dictionary definitions include the following:

*Belief in, recognition of, or an awakened sense of, a higher unseen controlling power or powers, with the emotion and morality connected therewith: rites or worship: any system of such belief or worship: devoted fidelity: monastic life ...<sup>6</sup>*

1. *Belief in, worship of, obedience to a supernatural power or powers considered to*

3 Qur'an 3:19.

4 Qur'an 3:85.

5 Qur'an 5:3.

6 Chamber's Twentieth Century Dictionary, 2012.

*be divine or to have control of human destiny; 2. Any formal or institutionalised expression of such belief: The Christian religion; 3. The attitude and feeling of one who believes in a transcendent controlling power or powers; 4. Chiefly R. C. Church, the way of life determined by the vows of poverty, chastity and obedience entered upon by monks, friars and nuns: to enter religion; 5. Something of overwhelming importance to a person: football is his religion; 6. Archaic: a. The practice of sacred ritual observance. b. sacred rites and ceremonies (c12: via old French from Latin religio- fear of the supernatural, pect-, probably from religare, to tie up, from Re + ligare to bind)<sup>7</sup>*

Combining the meanings from both of the above provides us with a comprehensive meaning of "religion" in the English language. The first definition clearly relates religion to the acceptance and worship of a higher superpower that controls the individual and the universe around him. This constitutes a somewhat narrow definition of the word "religion" in English. A broader definition is provided by the second source which not only connects religion to belief systems, but also defines it in terms of its significance to individuals and those areas of life which are not directly related to believing in and worshipping a god. Yet even with this broader definition, the word "religion" in English has a restricted meaning if compared with the Arabic word "dīn" which the Qur'an uses in referring to Islam.

To discover the Arabic meaning of "dīn" requires a very different approach than the one used in explaining the word "religion" in English. It should first be noted that the Arabs of the Arabian Peninsula around the time of the Islamic mission, had been subject to a transcendent process of preparation, so that they might be capable of receiving this final Divine message to all of humanity. These were the people who had been chosen to receive the message of Islam and their Arabic language was the foundation of this preparation. It offered a capacity to express and expand meanings, as well as flexibility in providing a wide range of derivatives. Muslims believe that the Arabic language will always remain as the means of access for interpreting and understanding the main sources of Islamic knowledge. These sources are the Qur'an and the sunnah of the Prophet Mohammed (s.a.w.):

7 Collins Dictionary of the English Language, 1986.



*We sent it down as an Arabic Qur'an, in order that ye may learn wisdom.<sup>8</sup>  
Verily this is a Revelation from the Lord of the Worlds, With it came down the  
Truthful spirit. To thy heart: that thou mayest admonish. In the perspicuous Arabic  
tongue.<sup>9</sup>*

*A Book, whereof the verses are explained in detail, a Qur'an in Arabic for people  
who understand.<sup>10</sup>*

Al-Razi explained in his tafsir of Qur'an 41:3 that Arabic is used because it is considered to be the most eloquent of languages, its letters being separate, clearly pronounced and different from one another while in any other language this is not the case.<sup>11</sup> The Arabic language is also the key to understanding the Qur'an, because it has the unique property of expanding the context of words to provide extra meaning to match the knowledge that human beings would gain through the ages. This is a property that Muslims believe will last until the end of time.

For any Arabic word which has an Islamic connotation, its meaning is a combination of what is known as its linguistic meaning ("al-ma'na al-lughwi") and its specific Islamic meaning which is the idiomatic meaning ("al-ma'na al-islāhi"). The linguistic meaning is described by Arabic dictionaries, while the idiomatic Islamic meaning is the specific context used for shari'ah.

A suitable example in this context is the word "salāh" (pray), the linguistic meaning of which is calling, and the idiomatic Islamic meaning of which is "the actions that a Muslim does when performing the five prescribed daily acts of worship". This we know from the narration contained in al-Bukhari that the Prophet (s.a.w.) is recorded as having said "pray as you have seen me praying".<sup>12</sup>

To extract the idiomatic Islamic meaning of an important word such as "dīn" requires that we combine together the different contexts introduced by the Qur'an. By adding to this the linguistic meaning, we

8 Qur'an 12:2.

9 Qur'an 26:192-195.

10 Qur'an 41:3.

11 Omar, 1985.

12 Bukhari Vol. 1. Book 11, No. 604.

then derive the comprehensive meaning of dīn in relation to Islam. This is one of the many unique methodologies of the Qur'an which cannot be found in other books. To demonstrate this we shall start with what Allah (s.w.t.) says in the Qur'an about dīn:

*Let there be no compulsion in religion, Truth stands out clear from error ...<sup>13</sup>*

In this verse, the English word "religion" is given as the translation of "dīn", while in the tafsir of al-Qurtubi the interpretation of "dīn" is "belief". In contrast, the Arabic word "al-ghay" in the same verse is translated as "error", meaning deviation in creed or belief.<sup>14</sup> On this level, belief can be considered a shared meaning between the English word "religion" and the Arabic word "dīn".

*Say: 'O ye men! If ye are in doubt as to my religion, (behold!) I worship not what ye worship other than Allah! But I worship Allah - W'ho will take your souls (at death): I am commanded to be (in the ranks) of the believers.<sup>15</sup>*

The same context has been expressed in the following verse:

*And further (thus): set thy face towards religion with true piety, and never in any wise be of the unbelievers.<sup>16</sup>*

In the commentary of the translation of this verse, dīn is explained as "the worship of the One and True God", which expresses and relates to the context of belief. But then the meaning of the Arabic word develops to encompass other broader meanings. The Qur'an provides the following:

*The same Din 'religion' has He established for you as that which He enjoined on Noah - The which We have sent by inspiration to thee, And that which We enjoined on Abraham, Moses, and Jesus: Namely that ye should remain steadfast in religion and make no divisions therein ...<sup>17</sup>*

Here we find the word "established" used as translation of the Arabic word "shari'ah" which means legislate and which is connected with "dīn" in the verse. Al-Qurtubi narrated that Qatadah said that the

13 Qur'an 2:256.

14 Al-Qurtubi, 1952.

15 Qur'an 10:104.

16 Qur'an 10:105.

17 Qur'an 42:13.



meaning of *dīn* in this verse is to "legislate what is *halal* [lawful] and what is *haram* [unlawful]".

In the same chapter, we find:

*W'but! Have they partners (in godhead), who have established for them some religion without the permission of Allah?*<sup>18</sup>

In this verse as well as the previous one it is easy to observe linguistically that "*dīn*" contains within its context the idea of legislation, something that is not found in the use of the English word "religion". Saïd Qutb explains that only Allah (s.w.t.) knows the rules of the universe and only He has the knowledge to legislate for humans to keep them in harmony with the rest of the universe.<sup>19</sup> The same context is given in the following verse:

*The woman and the man guilty of fornication, flog each of them with a hundred stripes: let not compassion move you in their case, in a matter prescribed by Allah, if ye believe in Allah and the last day and let a party of the believers witness their punishment.*<sup>20</sup>

In this verse the translators interpreted the Arabic words "*dīn* Allah" as "in a matter prescribed by Allah" which is a part of His legislation to humanity. The verse also describes the punishment and the way it should be carried out, confirming the element of legislation within the word "*dīn*". A judicial element also appears there, because in real life legislation has to coincide with the method of enforcement. In this verse, one finds that the deterrent value of the legislation is increased by the requirement that people from the community should witness the punishment.

A second difference between the two words is found when examining the following verse:

*Master of the Day of Judgement.*<sup>21</sup>

Here "Day of Judgement" is the translation of the Arabic words "*yaūm ad-dīn*" which to any Arabic speaker means the ultimate day of accountability when the final verdict is carried out upon each

18 Qur'ān 42:21.

19 Qutb, 1982.

20 Qur'ān 24:2.

21 Qur'ān 1:4.

member of humanity. In this sense, the concept of "*yaūm ad-dīn*" has a deeper meaning in Islam and for Muslims. This adds to the word "*dīn*" the concept of accountability with its two basic strands, namely Allah's judgement and the carrying out of His verdict on human beings.

The context of the Day of Judgment has been expressed in several verses such as the following:

*They will say, 'Ah! Woe to us! This is The Day of Judgment.'*<sup>22</sup>

*And My Curse shall be on thee till The Day of Judgment.*<sup>23</sup>

The Qur'ān also states:

*Thus did We plan for Joseph. He could not take his brother by the law of the King except that Allah willed it (so).*<sup>24</sup>

In this verse the words "the law of the King" are the translation of "*dīn al-malik*" which literally means "the King's religion". The word "law" is given here as an interpretation of "*dīn*", referring to the fact that the punishment that applied for theft under the King's law differed to that in force in the land from which Joseph's brothers had travelled. In most other exegeses the words "the King's religion" are interpreted as "*sultan al-malik*" which means the King's authority and hierarchy. This is a context in which "*dīn*" includes the administrative structural hierarchy. The verse could also mean that events were pre-planned to allow Joseph to keep his brother with him, as well as to employ him in the administrative hierarchy, where Joseph himself was already working:

*So the king said: 'Bring him unto me; I will take him specially to serve about my own person. Therefore when he had spoken to him, he said: 'Be assured this day, thou art of high standing with us, invested with all trust.' (Joseph) said: 'Set me over the store-houses of the land: I am a good keeper, knowledgeable.' Thus did We give established power to Joseph in the land, to take possession therein as, when, or where he pleased. We bestow of Our mercy on whom We please, and We suffer not to be lost the reward of those who do good.*<sup>25</sup>

22 Qur'ān 37:2.

23 Qur'ān 38:78; see also 51:12, 56:56, 70:26, 74:46, 82:17, 82:18, and 83:11.

24 Qur'ān 12:76.

25 Qur'ān 12:54-56.

Thus we can find throughout the Qur'ān several different applications of the word "dīn", namely as a belief or creed, as a legislation or set of laws, as accountability and judgement, and as an administrative hierarchy of authority. Elsewhere, the Qur'ān expresses the word "dīn" as inclusive of these four elements with both the administrative and juristic sides of that system. The Qur'ān states as follows:

*Say: O ye that reject faith! I worship not that which ye worship, Nor will ye worship that which I worship, And I will not worship that which ye have been wont to worship, Nor will ye worship that which I worship, To you be your way, and to me mine.*<sup>26</sup>

The same meaning has been expressed in another verse as follows:

*It is He Who hath sent His Messenger with Guidance and the Religion of Truth, to cause it to prevail over all religion even though the Pagans may detest (it).*<sup>27</sup>

The elements of belief and creed, legislation and set of laws, accountability and judgement, and civic hierarchical authority, are defined through the different Qur'ānic verses to be the various meanings of the word "dīn". Very few belief systems or ideologies of past or present times would dispute the necessity of the simultaneous implementation, in some form, of these elements.

It is worth noting that the meaning of dīn in the Arabic language accords with the aforementioned specific religious meanings. In *Religion and Politics*, al-Qaradāwī mentions that there are three meanings for the word "dīn" in the Arabic language. The verbs from which these meanings are derived are, firstly to own something or to control it, secondly to obey someone or to worship him, and thirdly to take something as a belief system or a way of living.<sup>28</sup>

In this regard, the fundamental difference between the Islamic and non-Islamic belief system is not whether human activities require legislation, but rather how to determine the source of that legislation and the associated judicial power.<sup>29</sup> In the Qur'ān this issue is addressed decisively as follows:

<sup>26</sup> Qur'ān 109:1-6. The word "way" in this verse is a translation of "dīn".

<sup>27</sup> Qur'ān 9:33.

<sup>28</sup> Al-Qaradāwī, 2007.

<sup>29</sup> Lloyd, 1991. The entire work is devoted to this issue.

*The command rests with none but Allah. He declares the truth, and He is the best of judges.*<sup>30</sup>

The assertion that Allah (s.w.t.) is the ultimate legislator appears throughout the Qur'ān and the sunnah, leaving no doubt of its significance within the Islamic belief system. The following are some of the Qur'ānic texts which represent this significant fact:

*Ye and your fathers, for which Allah hath sent down no authority: the command is for none but Allah: He hath commanded that ye worship none but Him: that is the right religion, but most men understand not ...*<sup>31</sup>

*Further he said: 'O my sons! Enter not all by one gate: enter ye by different gates. Not that I can profit you aught against Allah (with my advice): None can command except Allah: On Him do I put my trust: And let all that trust put their trust on Him'.*<sup>32</sup>

## Islam and Secularism

### Secularization v. Secularism

In *Teachings on Usury*, Susan L. Buckley shows the difference between secularization and secularism. She refers to the English word 'secular' as a derivative of the Latin word "saeculum" meaning 'this age'. She adds that saeculum is one of two Latin words denoting "world" (the other is "mundus"). "Saeculum" is a word that carries a connotation of time, used frequently to translate the Greek "aeon", which also means age or epoch. "Mundus" meanwhile carries the connotation of space, used most frequently to translate the Greek word "cosmos" meaning universe or the created order. Hence, the term "secularization", which is often mistaken as something anti-religious, in fact has a religious connotation and origin. Buckley explains the difference as follows:

*Secularization implies a historical process almost certainly irreversible, in which society and culture are delivered from tutelage to religious control and closed metaphysical world-views ... Secularism, on the other hand, is the name for an ideology, a new closed world-view, which functions very much like a new religion.*<sup>33</sup>

<sup>30</sup> Qur'ān 6:57.

<sup>31</sup> Qur'ān 12:40.

<sup>32</sup> Qur'ān 12:67.

<sup>33</sup> Buckley, 2000, p. 363.



According to Islamic belief, religious ideology has to be supported by revelation and prophethood. These are the means of providing a set of rules to organize human life, and a set of metaphysical knowledge to explain issues that lie beyond the scope of human intellect and scientific enquiry. An example of this is the description of Paradise and Hell which could not have been known without the guidance of Divine revelation. Of course, none of this prevents any given human society from developing its own ideas on such matters.

At this point, some further clarification of common misconceptions concerning religion and secularism is appropriate. Edward Royle, lecturer in history at the University of York, writing about the rise of secularism as an intellectual and political movement, explains:

*The secularists were political as well as intellectual radicals, and their agitation was organised as a political movement, their concern was to open up the establishment, and their campaign was for the creation of a secular, pluralistic, open society in place of one based on a closed, aristocratic constitution and the Christian ideology. Sympathy with these aims came from some middle-class radicals and intellectuals, most notably John Stewart Mill whose essay On Liberty (1859) may stand as the most cogent plea for the sort of society which the secularist wanted.<sup>34</sup>*

Royle ends the third chapter of his book with the following important note:

*In the end, the times were against the sectarian approach, when the world was rubbing out the dividing line, when religious men could sponsor 'rational' and 'secular' reforms, when even doubt could become respectable, exclusiveness had lost its meaning.<sup>35</sup>*

In a later work, Royle continues his insights with regard to secularism as follows:

*Although secularism was in opposition to Christianity, it at times seemed just another religious group, a little more extreme than the latest Bible-based revivalist sect, but nevertheless bearing strong resemblance to it. At other times secularism is best seen engaged in an antipathetic relationship with the churches, thriving on their attacks and feeding religious groups with a justification for their existence.<sup>36</sup>*

34 Royle, 1974, p. 4.

35 *ibid.*, p. 162.

36 Royle, 1980, p. 3.

Secularism based its attack on Christianity upon two main grounds, firstly the abuse of power by the Church, and secondly the poor relationship that existed between the Church and the world of science. In the end, secularism succeeded in restricting Christianity to within the confines of the closed doors of the Church itself. Power over society was transferred from the hierarchy of the Church to committed secularists in the form of democratic governments elected by people to replace the Church's hierarchy. Democracy, liberty, human rights and freedom of speech, science and the scientific approach, all of these new concepts became Western values in and of themselves, standing on their own merits, as distinct from mere means in achieving the objectives of secularism. Hence, although talk of secularism has diminished in the Western world today, discussion of its objectives (such as democracy, liberty, human rights and so on) remains widespread.

For some analysts, the transformation to the new Western culture and structure of human society, and from Christian theology to secular ideology, is a transformation from one radical extreme to another. Others see it as a good balance between Church hierarchy and autocratic elite. Whichever analysis one prefers, the conflict between the Christian theology and the authority of the Church on the one hand, and the forces of secularism on the other, have been resolved in the manner of an amicable divorce. This outcome has given birth to an idea that the essential conflict is not between Christianity and secularism as such, but rather between "religion" and "secularism" generally.

Although this conflict is not compatible with Islamic belief, in places it has been imported into the Islamic discourse, often by intellectuals who cast themselves as liberal or even secular Muslims. They have done this by excluding politics from Islam, or by excluding Islam from politics, thus mimicking the anti-Christian secularist movement.<sup>37</sup> In the process, some of the old debates that took place between the Church and the secularists have been resurrected, despite the very different nature of Christianity and its institutions as compared to the beliefs and institutions of Islam.

37 The Arabic translation of "secularist" is "*'ilmānī*" which is a derivative of the word "*'ilm*", meaning knowledge. This suggests that non-secularists would be "*'ihlānī*", signifying ignorance. Such a translation obviously has little to do with the meaning of the English word.



One frequent claim of the Islamic secularists is that true Islam is concerned only with the ritual of worship. It is an idea that is easily refutable and would only be valid in Muslim societies that deviate from the Qur'ān and the sunnah of Prophet Mohammed (s.a.w.). These authentic sources<sup>38</sup> have always held that Islam is a complete constitution which organises human activities at both the individual and societal level, within the concept of human life as a test. This point is essential and builds on our previous argument that Islam is a dīn that regulates the activities of human beings, and Allah (s.w.t.) is the ultimate legislator. In that context, the fault line between Islam and secularism seems crystal clear. Whereas secularism has attacked the authority of the Church and called for limiting it to the confines of worship, Islam calls for a comprehensive dīn that covers and integrates all aspects of human activity by Divine legislation. Here, worship is defined as the application of this legislation to all aspects of life without discrimination, including its political, economic and social dimensions.

### Complexity, Multiplicity, and Interaction of Human Activities

Every human being, whether male or female, is an individual entity ("nafs")<sup>39</sup> combining a body and a soul. The influence of the soul amplifies the physical properties of the body, generating energy, forcing the nafs to function in a very complex manner, interfering with the activities of other entities, either by sharing a self-interest or creating a conflict of interest.

During every type of human activity, a structure is developed, an economic, political or social structure for example, in order to accommodate the intersection between the interests of individuals and those of society as a whole. Together, these structures represent a single human societal structure. Their separation is frequently undertaken as a theoretical exercise for academic purposes but in reality such separation is impossible.

38 The Prophet (s.a.w.) said, "I have left among you what if you hold dearly, you shall never go astray: the book of Allah and my sunnah. So hold them dearly" (narrated by Muslim).

39 The meaning of "nafs" is taken from the Arabic dictionary *Lisān al-'Arab*.

Academics frequently refer to the social dimension of human activity as "human science", giving the impression that social considerations largely determine human interactions, while in reality every human being is an economic agent as much as a social one. Across the various domains of life, an inner human essence works to create many forces, not merely the single "invisible hand" proposed by Adam Smith, motivating each individual on his or her daily course.<sup>40</sup> Islam regulates these forces holistically, taking into account the full impact of each across the whole spectrum of human activity.

Human society is a dynamic structure, constantly changing in response to alterations in its sub-structure. For example, a change in social behaviour will have an economic impact and in due course the entire human structure will adjust itself to accommodate the initial change. However, changes in the human structure will also affect human behaviour, resulting in a dialectical relationship between the two. Attaining and enforcing a precise balance in all human activities is therefore a task that is far beyond conventional human wisdom. For example, a failure to prohibit intoxicants and gambling, can have very large economic, social and political consequences for a society, in addition to physical and psychological infirmities. The Qur'ān confirms that negative and positive consequences flow from both intoxicants and gambling, but that the negative effects outweigh the positive.<sup>41</sup>

### 1.3 Knowledge and Language

Language is the vehicle of knowledge and without it the entire intellectual ability of humanity would be wasted. Yet until now there is no evidence that shows how humans first learned to speak. The transcendental nature of this subject led *The Linguistic Society of Paris* to pass a resolution in 1884 "outlawing" any papers on the topic under the claim that the subject of language would finally lead to the subject of God.<sup>42</sup>

The common observation is that linguistic skills have been passed from

40 Smith, 1880.

41 See the detailed discussions of Chapter 7.

42 Rodman and Fromkin, 1993, p.22.

one generation to the next by imitation. The Qur'ān approves of this observation by reporting how man first learned his linguistic knowledge:

*And Allah taught Adam the names of all things*<sup>43</sup>

In the tafsir of al-Razi, the word "names" refers to the different languages humans use all over the world. He said that Adam and his sons knew these different languages but then each went to a different part of the world and used one language more than the others and that is why the differentiation in tongues came to being.<sup>44</sup>

To use words intellectually we need linguistic skills to express meaning and exchange ideas. Again, the Qur'ān has confirmed that the creation of man and the imparting to him of linguistic skills occurred together. The Islamic position is that language and all linguistic knowledge, along with the skill to manipulate them both, has been given to man as a part of his character in order to qualify him for his mission.<sup>45</sup> The Qur'ān confirms this as follows:

*The most Gracious: 'It is He who has taught the Qur'ān. He has created man: He has taught him an intelligent speech.'*<sup>46</sup>

### Reading, Writing and Knowledge

The increasing dependency of contemporary life on reading and writing highlights the continuing significance of the fact that the first word revealed in the Qur'ān was "read" in Surat al-'Alaq<sup>47</sup> (The Leech-Like Clot). The first five verses are as follows:

*Read (or Proclaim!) In the name of the Lord and Cherisher who created, Created man out of a leech-like clot, Proclaim! And thy Lord is Most Bountiful, He Who taught (the use of) the pen, Taught man that which he knew not.*<sup>48</sup>

43 Qur'ān 2:31.

44 Omar, *op. cit.*, Vol. 1-2, p. 192.

45 See the Holy Qur'ān English translation of the Meaning and Commentary, King Fahd Holy Qur'ān Printing Complex, footnote number 48.

46 Qur'ān 55:1-4. Allah (s.w.t.) created the Qur'ān first and then He created Man. This ordering of events confirms that the creation of man followed to fit within the conditions specified in the Qur'ān, not vice versa.

47 Another name for Surat al-'Alaq is Surah Iqra' ("Read" or "Proclaim").

48 Qur'ān 96:1-4.

The emphasis on reading and writing within the Islamic message is of much importance in spite of the fact that the Prophet (s.a.w.) was himself unlettered. The Divine linguistic nature of the Qur'ān astonished the Arabs at a time when they were probably at the zenith of their eloquence and philology, to the degree that some of them accused the Prophet (s.a.w.) of sorcery. Indeed, the very accusation admits the superior provenance of the Qur'ānic source. Even in contemporary society the Qur'ān has resisted change, remaining intact today exactly as it was revealed to the Prophet (s.a.w.). This is not only in the sense that it has retained its consistency across the generations through much reprinting and recitation from memory, but also by the "ever-expanding nature of the meanings contained in its verses and their inexhaustible capacity to accommodate even the most recent scientific discoveries".<sup>49</sup> Another aspect crucial to the survival of the text is its capacity to produce a complete constitutional formula for every human activity regardless of the historical or geographical context.

*"We have, without doubt, sent down the message and we will assuredly guard it (from corruption)."*<sup>50</sup>

Although the Qur'ān asserts that its text is under Allah's protection, language, like any other instrument available to human beings, is subject to misuse. This linguistic misuse can take place on two main levels. The first is commonly called "bad language" and comprises swearing, impolite phrasing and provocation, the cause of much social disturbance. The second level is that of linguistic distortion. Here, names, descriptions or definitions are given to concepts or subjects in order to change their apparent nature. Misdirection and intellectual confusion is the result of this second form of misuse.

A good example of linguistic distortion is the changing of the word "usury" to "interest" and the accompanying differentiation of meaning between the two words. This change has caused much confusion on the topic of usury. Advertising is another area fraught with linguistic misuse. For example, marketing a drink as "the real thing" is an indirect

49 Al-Shar'āwī, 1991, p. 30.

50 Qur'ān 15: 9.



way of claiming that everything else is somehow unreal, which is a bold and perhaps controversial insinuation.

Translation is another fertile field for distortion. It is impossible to provide an exact equivalence to one text in two languages or more<sup>51</sup> and we have already seen the difficulty of finding equivalents to the words of the Qur'ān in the discussion of the word "dīn". Another hurdle faced by the translator is the fact that human beings have limited intellect, and once again it is impossible for the limited to contain the unlimited. Since the Arabic words chosen by the Creator cannot be rendered accurately in another language, Qur'ān translators have attempted to render the meanings and interpretations of the Qur'ān rather than provide a direct translation.

### Knowledge, Science and Religion

The distinction between "science" and "religion" is a classical intellectual conundrum. Not only is a suitable reference for distinguishing between scientific and religious issues absent, but there is also a lack of agreement on what "science" actually is.<sup>52</sup> The divide between science and religion was not always so severe, a happy co-existence with the Church having been maintained before science proceeded to play its part in the cultural and institutional changes of the European Enlightenment. Indeed, the secularization of the modern Western world springs largely from this seventeenth century divorce between science and Church.

In modern times an echo of this same conundrum has reached the Muslim world. Whereas the conflict between science and religion in the Christian world is between intellectuals and technocrats on the one side, and clergy and Church hierarchy on the other, in the Muslim world the story is rather different. There is no substantial religious hierarchy or clergy in Islam. Instead there is a set of rules created by Allah (s.w.t.), which represents a constitution to Muslims and non-Muslims as one human society. In fact, Islam denies any human transcendental

51 Crystal, 1995, p. 344.

52 Royle, 1974.

authority. No one can occupy a position between another human being and Allah (s.w.t.). This principle is clear in Islam and can be observed in all acts of worship. The Qur'ān explained this when defining the functions of the Prophet (s.a.w.) as follows:

*Therefore do thou remind for thou art one to remind, Thou art not one to manage (their) affairs (Qur'ān 88:21-22).*<sup>53</sup>

*We sent down the (Qur'ān) in Truth, and in Truth has it descended: and We sent thee but to give glad Tidings and to warn (sinners).*<sup>54</sup>

Al-Razi stresses that the first verse means that the duty of the Prophet (s.a.w.) is restricted only to delivering Allah's message.<sup>55</sup> Because of the significance in Islam of the belief that the Prophet (s.a.w.) is not authorised to interfere in a Muslim's will, or in a Muslim's relationship with Allah (s.w.t.), the meaning of the above verses is repeated elsewhere in the Qur'ān. The same idea is also attached to the role of other prophets whom Allah (s.w.t.) has sent to humanity as reminders of His message:

*We send the Messengers only to give good news and to warn: so those who believe and mend (their lives), upon them shall be no fear, nor shall they grieve.*<sup>56</sup>

*We only send the Messengers to give glad tidings and to give warnings: but the unbelievers dispute with vain argument, in order therewith to weaken the truth, and they treat My signs and warnings as a jest.*<sup>57</sup>

It is nearly fifteen hundred years since the Prophet Mohammed (s.a.w.) proclaimed that a Divine Authority lay behind the revelation that he received, and until today Muslims believe that these revelations, whether from Qur'ān or ḥadīth, are a self-proof of that divinity. This idea still exists in spite of recent scientific discoveries using highly sophisticated technology.<sup>58</sup>

53 In this verse, the words "thou art one" is a translation of "in-namā", emphasising the exclusiveness of the Prophet's role (which is to deliver God's message to the people). The meaning is supported by the following verse.

54 Qur'ān 17:105. This meaning has been repeated in Qur'ān 25:56, 33:45, 34:28, 35:24 and 48:8.

55 Omar, *op. cit.*, Vol. 31-32, p. 160.

56 Qur'ān 6:48.

57 Qur'ān 18:56.

58 Bucaille, 1983. See also Al-Sha'rāwī, 1991, *op. cit.*



Another basic Islamic belief is that the words of the Qur'ān and ḥadīth are the absolute truth, and hence contain no discrepancies or contradictions with scientific fact. Some of these words relate to pure science, others to human science and history, and some carry a metaphorical meaning. They cover all aspects of human society, collectively not separately. The Qur'ān explains as follows:

*Soon will We show them our Signs in the (furthest) regions (of the earth), and in their own souls, until it becomes manifest to them that this is the Truth. Is it not enough that thy Lord doth witness all things?*<sup>59</sup>

Ibn Kathīr states in his tafsīr that the meaning of this verse is:

*'We will show them Our evidence and proof that the Qur'ān is true and has indeed been sent down from Allah to the Messenger of Allah, through external signs, in the universe', such as conquests and the advent of Islam over various regions and over all other religions. Mujāhid, al-Ḥasan and As-Suddī said, "And signs within themselves means, the battle of Badr, the conquest of Makkah, and other events which befell them, where Allah granted victory to Muḥammad and his Companions, and inflicted a humiliating defeat on falsehood and its followers". It may also be that what is meant here is man and his physical composition. As detailed in the science of anatomy, which indicates the wisdom of the Creator - may He be blessed and exalted - and the different inclinations and opposite natures that people have, good and bad, etc., and the (divine) decrees to which man is subjected, having no power to change and over which he has no control, "until it becomes manifest to them that this (the Qur'ān) is the truth"'*<sup>60</sup>

In this light, Islam confirms that human knowledge in any era is slight and limited, whatever it seems to have achieved. It also confirms that a sphere of knowledge has been left for each human being to discover and use during his journey through life. The Prophet (s.a.w.) has described this type of knowledge as that of mundane affairs. So science is only a type of knowledge, some of which is revealed within scripture and some of which is discovered by humanity. Therefore, science should never be seen as a rival to religion. Rather, it is complementary to it.

In the same way, humanity has discovered some knowledge of human behaviour, some of which is revealed within (though is not exclusive to) scripture. Islam neither dictates all knowledge nor describes science, but

59 Qur'ān 41:53.

60 Al-Mubarakpuri, 2000.

it describes a code of morals that should be applied, while mentioning some scientific phenomena in the Qur'ān and ḥadīth as a proof of its divinity.

In the Battle of Badr, al-Ḥubāb bin al-Mundhir al-Jamāh approached the Prophet (s.a.w.) and said:

*O messenger of Allah, is this spot where you have dismounted a place to which Allah has guided you and therefore, may we neither step beyond it, nor stay far behind it? Or is it simply a question of ordinary war strategy, of measures and moves and countermeasures and moves? The Prophet answered 'It is indeed the latter, just as you said.'*<sup>61</sup>

As a result of this answer, al-Ḥubāb suggested an alternative strategy which was then approved by the Prophet (s.a.w.). It is clear from this ḥadīth that Islam does not create a religious authority that dictates knowledge of all aspects of human life. Rather, it provides space for such things in the light of the guidance provided by Allah (s.w.t.) in the Qur'ān and the sunnah.

When the Prophet (s.a.w.) went to al-Madīnah and the people had been grafting trees, 'Ikrimah reports through Rafī' ibn Khadij that the Prophet (s.a.w.) said:

*'What are you doing?' They said: 'We are grafting them', whereupon he said: 'It may perhaps be good for you if you don't do that'. So they abandoned this practice (and the date palms) began to yield less fruit.*

Ikrimah continues that, when crop yields subsequently fell, the people of al-Madīnah made another mention of it to the Prophet, whereupon he said:

*I am a human being, so when I command you about a thing pertaining to religion, do accept it, and when I command you about a thing out of my personal opinion, keep it in mind that I am a human being.'*<sup>62</sup>

Hence it was clear from the beginning of the revelation of Islam that two spheres of knowledge exist concurrently, the sphere of religious knowledge and the sphere of non-religious knowledge. Since it is sometimes difficult to separate these two spheres, it has been recommended in the Qur'ān that a group from among Muslim society

61 The Battle of Badr, 2008.

62 Ṣaḥīḥ Muslim, Book 18, No 4249, narrated by Rafī' ibn Khadij.

should specialise in the sphere of religious knowledge in order to minimise such difficulties.<sup>63</sup>

*And it is not proper for the believers to go out to fight (jihad) all together. Of every troop of them, a party must go forth, that they (who are left behind) may get instruction in (Islamic) religion, and that they may warn their people when they return to them, so that they may beware (of evil).<sup>64</sup>*

### Knowledge and Guidance

Knowledge is thus given an important place within Islam, but Allah (s.w.t.) confirms nevertheless that knowledge alone cannot be a source of guaranteed guidance to the path of Truth. In the Qur'ān, Allah says:

*Then seest thou such a one as takes as his god his own vain desire? Allah has, knowing (him as such), left him astray, and sealed his hearing and his heart (and understanding), and put a cover on his sight. Who, then, will guide him after Allah (has withdrawn guidance)? Will ye not then receive admonition?<sup>65</sup>*

In this verse, Allah (s.w.t.) has confirmed that knowledge alone cannot guarantee success. Only guidance from Allah (s.w.t.) can secure success in this life and the hereafter. Knowledge itself is an abstract thing and can be used in different ways, both constructively and destructively, for manipulation or for enlightenment. Without guidance, knowledge can indeed be a very dangerous tool in human hands.

An important theme affirmed by Islam in the Qur'ān and the sunnah, is that human beings are given space to set their own rules and make their own discoveries, yet they should not consider themselves beyond correction or capable of fulfilment without the guidance of the Almighty. Herein is a foundational concept of Islam, and one of great relevance to discussions on modern economic and social matters.

### 1.4 The Purpose of Existence

Both intuition and experience suggest that the huge physical universe within which we live cannot be without purpose, yet any claim of

63 This Sūrah also goes by the name "Barā'ah" ("Immunity").

64 Qur'ān 9:122.

65 Qur'ān 45:23.

what its purpose might be remains in doubt unless sanctioned by the authority of the Creator Himself. No entity, human or otherwise, has claimed to have created the universe, and science has no proof as to how the universe came to exist. Such knowledge belongs only in the realm of religion. The Qur'ān mentions the claims of those who deny any purpose for human existence as follows:

*And they say 'What is there but our life in this world? We shall die and we live and nothing but time can destroy us.' But of that they have no knowledge: they merely conjecture.<sup>66</sup>*

According to the Qur'ān, there are two types of existence, each of which has a compatible purpose. The first is the non-human type, the purpose of which is to serve humanity, since everything on earth and beyond has been created for the benefit of humanity and has been given the properties that enable it to function in this role:

*It is He who hath created for you all things that are on earth.<sup>67</sup>*

Allah (s.w.t.) has not only created what is in the heavens and on earth for humanity, but has subjected them to humanity:

*And he has subjected to you, as from Him, all that is in the heavens and on earth.<sup>68</sup>*

In his tafsīr, al-Tabari explains of this verse that Allah (s.w.t.) has subjected these things for the good of human beings and for that He deserves utter gratitude and worship.<sup>69</sup> It is noticeable that the equation has two parts to it. The first is the creation of things for human beings and the second is the subjection of what has been created for the benefit of human beings. Creation without subjection would in fact be useless, and the subjection must itself operate within fixed laws so that humanity can discover and apply the creation for its benefit.

The second type of existence is the one enjoyed by both jinns and human beings. For both of these, there is no purpose other than to worship the Creator Allah (s.w.t.). This has been expressed in the Qur'ān as follows:

66 Qur'ān 45:24.

67 Qur'ān 2:29.

68 Qur'ān 45:13.

69 Al-Tabari, 1988.



*I have created jinns and man (humans) that they may serve (worship) Me.*<sup>70</sup>

Hence, according to Islam, the equation of existence is as follows. All existence has been created for, and subjected to, humanity, and all of humanity has been created to worship nothing but Allah (s.w.t.). Unlike the non-human creation, humans have been given advanced capabilities on the individual as well as the social dimension. These features permit a huge range of activities to be undertaken at an advanced level of proficiency. Through the Prophet and by means of revelation, Allah (s.w.t.) has given humanity rules to make the best of these activities. However, human beings can choose whether to act according to the rules of Allah (s.w.t.) or otherwise.

The difference between the first and second type of creation is that the former has been created to serve its purpose without choice, whereas human beings have been designed and equipped with intellectual abilities that enable them to choose whether or not to serve their purpose. Both jinns and humans may choose between alternative courses of action and, consequently, enjoy or suffer the consequence of their choices.

When the opportunity to live according to free will was offered to them, most of the creation chose to function according to the fixed behavioural properties given by Allah (s.w.t.). The Qur'an states:

*We did indeed offer the trust to the Heavens and the Earth and the Mountains but they refused to undertake it, being afraid thereof, but man undertook it: He was indeed unjust and foolish.*<sup>71</sup>

In his tafsir, al-Tabari explains that the Heavens and the Earth were offered free will so that when they obeyed Allah (s.w.t.) they would be rewarded and when they disobeyed Him they would be punished. However, according to al-Tabari, they refused to accept it for fear of the enormous responsibility.<sup>72</sup>

## The Notion of Worship

When Allah (s.w.t.) created Ādam, He asked the angels to bow to Him

70 Qur'an 51:56.

71 Qur'an 33-72.

72 Al-Tabari, 1988, p. 53.

as a sign of servitude. All of the angels obeyed this command, but Iblīs refused. In the Qur'an we find:

*And behold, we said to the angels, 'Bow down to Ādam' and they bowed down, though not Iblīs who refused and was haughty...*<sup>73</sup>

The reason for Iblīs refusing to bow down to Ādam is clear from the answer that he gave to Allah's subsequent question:

*"[Allah] said 'What prevented thee from prostrating when I command thee? He said 'I am better than he: Thou didst create me from fire and him born of clay'."*<sup>74</sup>

Through his act of refusing to obey Allah's command, Iblīs failed the test that was set for him. His purpose had been to worship Allah (s.w.t.), and it was this purpose that he failed to fulfil. Similarly, the purpose of human existence is to obey Allah's command, and Al-Razi confirms that human beings have been created for nothing other than worshipping Allah (s.w.t.).<sup>75</sup> This purpose is achieved by exhausting one's full will and ability in striving to obey Allah (s.w.t.) in every aspect of life. The aforementioned Qur'an 51:56 refutes any other supposed purpose.

The five pillars of Islam are central in this process of striving. They are: i) to bear witness that there is no God but Allah (s.w.t.) and that Prophet Mohammed is the last prophet and final messenger of Allah (s.w.t.) to mankind; ii) to pray five times a day; iii) to fast the month of Ramadan; iv) to pay zakāh; and v) to travel to Makkah to perform pilgrimage (hajj) at least once in one's lifetime if such a journey is within one's means. These are the minimum requirements from each Muslim, though not the entirety of Islam, nor the only actions by which Allah (s.w.t.) may be worshipped.

A key Islamic concept here is that by exhausting one's full will in obeying the Creator, He will bless both the individual and the society around him. Being sincere in accomplishing the five pillars of Islam is a means whereby the Muslim can attain complete submission to the will of Allah (s.w.t.), and in turn enjoy these blessings. Taken together, these

73 Qur'an 2:34. In this verse, "Bow down to Ādam" implies an order to serve humanity so as to help them achieve their purpose.

74 Qur'an 7:12.

75 Omar, *op. cit.*, Vol. 27-28, p. 231.



acts of worship can be seen as a set of training exercises that enable Muslims to achieve good deeds:

*Revise what is sent of the Book by inspiration to thee, and establish regular prayer, for prayer restrains from shameful and evil deeds: And remembrance of Allah is the greatest (thing in life) without doubt. And Allah knows the (deeds) that ye do.*<sup>76</sup>

A ḥadīth of the Prophet (s.a.w.) goes on to show that:

*Whoever does not give up false speech and evil actions, Allah is not in need of his leaving his food and drink (i.e. Allah will not accept his fasting).*<sup>77</sup>

From this we can see that practice of the five pillars is not an objective in itself, rather it is an exercise which is designed to enable humans to worship Allah (s.w.t.) through all of their activities and in particular to be fair and humble with one other.

### 1.5 The Meaning of "Khalīfah"

The word "khalīfah"<sup>78</sup> is mentioned in the Qu'rān only twice, once in verse 30 of Surat al-Baqarah and then in verse 26 of Surat Sād.

*Behold, thy Lord said to the angels: 'I will create a Khalīfah on earth.' They said: 'Wilt thou place therein one who will make mischief and shed blood? W'hilst we do celebrate Thy praises and glorify Thy holy (name)?' He said: 'I know what ye know not.'*<sup>79</sup>

*Prophet David, We have made you Khalīfah. Judge fairly between people.*<sup>80</sup>

A common misconception is that the word Khalīfah indicates the position of "Allah's vice-gerent".<sup>81</sup> This misconception has occurred on two levels, one due to the mistranslation itself, and the second due to the loss of the original meaning of the word. J. M. Rodwell translates

76 Qur'ān 29:45.

77 Al-Bukhari, Book 73, No. 83. There is another ḥadīth with a similar meaning but with weak support wherein the Prophet (s.a.w.) says: "Whoever's prayer does not restrain him from bad deeds, his prayers are not valid."

78 The derivative of this word has been repeated through the Qur'ān in different places to convey the full context of the meaning of the original word.

79 Qur'ān 2:30.

80 Qur'ān 38:26.

81 See Tamimi 2001; Chapra 1986; and Vogel & Hayes, 2006, p. 56.

the word in Surat al-Baqarah as "my stead on earth"<sup>82</sup> and in Surat Sād gives it as "our vice-gerent on earth".<sup>83</sup>

In responding to this misconception, it should be recognised that "khalīfah" is the first word which Allah (s.w.t.) used to describe human beings in the Qur'ān:

*Behold, thy Lord said to the angels: 'I will create a Khalīfah on earth' ...*<sup>84</sup>

The angels somehow knew that this khalīfah would corrupt and shed blood upon the earth and, arguably, they were right:

*They said: 'Wilt thou place therein one who will make mischief therein and shed blood? ...*<sup>85</sup>

The idea that Allah's khalīfah is Allah's "vice-gerent" or "vice-regent" suggests that Allah (s.w.t.) has given humanity the right to apply part of His authority on earth on His behalf. To understand why this runs contrary to the principles of Islamic faith, and to understand the real meaning of the word "khalīfah", we must first acknowledge the complete separation that exists between the Divine entity of Allah (s.w.t.) and the entity of the human being.

So far as Islamic 'aqidah is concerned, Allah (s.w.t.) does not require a surrogate, deputy, khalīfah or any other entity as a go-between.<sup>86</sup> "Khalīfah" is a description of a human feature which has been given to suit the limited nature and abilities of human beings and to allow multi-functional capabilities in human social interaction:

*V'erily, when Allah intends a thing, His command is, "Be", and it is! So glory to Him in whose hands is the dominion of all things, And to Him will ye be all brought back.*<sup>87</sup>

*If it had been Our wish to take (just) a pastime, We should surely have taken it from the things nearest to Us, if We would Do (such a thing).*<sup>88</sup>

In Sūrah al-Ikhlās, Allah (s.w.t.) has revealed in clear and concise words how humanity should perceive Him:

82 Rodwell, 1994, p. 5.

83 Rodwell, 1994, p. 304.

84 Qur'ān 2:30.

85 Qur'ān 2:30.

86 al-Masri, 1992.

87 Qur'ān 36:82-83.

88 Qur'ān 21:17.

*Say: He is Allah, The One, Allah The Eternal, The Absolute, He begetteth not, nor is He begotten, And there is none like unto Him.<sup>89</sup>*

In my understanding, the attribute of "khalīfah" is unique to human beings, and appears in two dimensions. One can be termed the "vertical dimension" and the other the "horizontal dimension".

The vertical dimension expresses the meaning of "taking over" and "replacing", "taking over" in the sense that human beings came to dominate the earth in place of the creatures that went before them, and "replacing" in the sense of the process by which each human generation replaces the earlier one. The Qur'ān states:

*It is He who hath made you the inheritors of the earth: then We made you heirs in the land after them.<sup>90</sup>*

*Do ye wonder that there hath come to you a message from your Lord through a man of your own people, to warn you? Call in remembrance that He made you inheritors after the people of Noah, and gave you a stature tall among the nations. Call in remembrance the benefits (ye have received) from Allah: that so ye may prosper.<sup>91</sup>*

*'And remember how He made you inheritors after the 'Ād people and gave you habitations in the land: ye build for yourselves palaces and castles in (open) plains, and carve out homes in the mountains; so bring to remembrance the benefits (ye have received) from Allah, and refrain from evil and mischief on the earth.'<sup>92</sup>*

Al-Razi explains the reference to human beings as "inheritors" by saying that when the nation of 'Ād was punished, they were superseded by the nation of Thamūd who reproduced and lived in the land. This encompasses the vertical dimension of the meaning of khalīfah.<sup>93</sup> This dimension also refers to the regeneration of human society, which includes not only physical inheritance, but also an intellectual and ideological bequest from one generation to another.<sup>94</sup> The Qur'ān expresses such a meaning on more than one occasion:

89 Qur'ān 112:1-4.

90 Qur'ān 6:165.

91 Qur'ān 7:69.

92 Qur'ān 7:74.

93 Omar, *op. cit.*, Vol. 7, p. 168.

94 Entry for "khalīfah" in Lisān al-'Arab.

*They worship nothing but what their fathers worshipped before them ...<sup>95</sup>*

*They said: 'Comest thou to us, that we may worship Allah alone, and give up that which our fathers used to worship? Bring us what thou threatenest us with, if it be that thou tellest the truth!<sup>96</sup>*

*They said: 'O Salih! Thou hast been of us! A centre of our hopes, hitherto! Dost thou (now) forbid us the worship of what our fathers worshipped? But we are really in suspicious (disquieting) doubt as to that to which thou invitest us.<sup>97</sup>*

*Their Messengers said: Is there a doubt about Allah, the Creator of the heavens and the earth? It is He who invites you, in order that He may forgive you your sins and give you respite for a term appointed! They said: Ah! Ye are no more than human, like ourselves! Ye wish to turn us away from what our fathers used to worship; then bring us some clear authority.<sup>98</sup>*

The horizontal dimension of khalīfah expresses two meanings, one of which relates to the difference in ability between individuals in spite of the fact that all humans are descendants of the same parents. These differences in human nature appear also as differences of individual interests which can sometimes be the cause of conflict. They may start as a mere difference in opinion between two individuals and conclude as a war between nations:

*If thy Lord had so willed, He could have made mankind one people: but they will not cease to differ, except those on whom thy Lord hath bestowed His mercy, And for this did He create them.<sup>99</sup>*

The second meaning within the horizontal dimension of khalīfah relates to those human limitations which cause one individual to act as a proxy to manage or conduct the affairs of another:

*... and Moses had charged his brother Aaron (before he went up): 'Act for me amongst my people ...'<sup>100</sup>*

The Prophet Mohammed (s.a.w.) has generalised this meaning in his ḥadīth as follows:

95 Qur'ān 11:109.

96 Qur'ān 7:70.

97 Qur'ān 11:62.

98 Qur'ān 14:10.

99 Qur'ān 11:118-119.

100 Qur'ān 7:142.



*Each one of you is shepherd, and each one of you will be asked about your flock. A ruler is also a shepherd and he will be asked about his flock. And each is a shepherd to his family. And a woman is the custodian of her husband's house and his children. Thus each one of you is a shepherd, and each one will be asked about his flock.*<sup>101</sup>

This concept of intersection of duties and responsibilities is unique to humanity and is indeed the central fabric of human infrastructure. It is also the core of the context of the word "khalifah". Islam and Islamic law are designed to achieve the maximum justice for every individual at every level within the society. Laws, judgement and law enforcement are essential to human life,<sup>102</sup> and the extent to which justice is achieved within a society is a measure of the human dignity that it provides for its members. The Qur'an has summarised this issue by making the provision of justice a requirement upon the one who acts as khalifah:

*"O David! We did indeed make thee a khalifah on earth: so judge thou between people in truth (justice)."*<sup>103</sup>

The failure to achieve justice is a frequent cause of the corruption and bloodshed mentioned by the angels in Qur'an 2:30. As to why they should mention only the bad side of human nature, we can speculate that the good side, being normal, was unworthy of comment.

The difficulties of translating the Qur'anic Arabic are well illustrated in Abdul Haleem's translation of "khalifah". In Surat al-Baqarah he gives the translation as "successor",<sup>104</sup> which goes some way to supporting the vertical dimension, but in Surat Sād he provides the sentence "David, We have given you mastery over the land"<sup>105</sup> which supports the horizontal dimension. Then, in Surat al-Raf, where Moses places his brother in charge he writes "take my place among people".<sup>106</sup> This is a good example of how difficult it is to translate the Qur'an in a literal

way. Translators can only offer their own interpretations of the Qu'rānic meaning, and their efforts cannot be considered a literal translation of the text itself.

## 1.6 Conclusion

An understanding of the nature and role of the human being is central to Islamic teaching. The Qur'an and the sunnah contain sufficient information to help human beings understand themselves, their societies and the relationship that exists between them and the rest of creation. The process of developing human scientific knowledge, insofar as it deals with a matter that is touched upon in Islam, should therefore adopt the guidance contained in the Qur'an and sunnah before any other source, according to the aforementioned Islamic foundations and principles. The same applies to understanding the purpose of life and how a human being should act – or at least aim to act – to achieve their purpose, lest life is wasted.

The concept of Allah's khalifah as a vice-regent or vice-gerent should be ruled out not only because it is the wrong meaning, but also because it will result in the loss of the correct meaning of the term. This in turn may cause a loss of understanding of the concept of khalifah in relation to human activities, with huge implications for human science.

101 Al-Bukhārī. Book 90, No. 5199, on the authority of 'Abdullah ibn 'Umar; also in Muslim.

102 See the meaning of the word "dīn".

103 Qur'an 38:26.

104 Abdul Haleem, 2008, p. 7.

105 *ibid.*, p. 103.

106 *ibid.*, p. 291.



## 2 THE PRINCIPLES

### 2.1 Introduction

In this chapter, some of the complex issues arising in the human sciences, particularly in the field of economics, are carefully described so as to reveal key underlying Islamic principles. These principles often directly contradict those of conventional economics, and are often insufficiently explained even in texts on the topic of Islamic economics. In order that their relevance to modern economic issues can be recognised as widely as possible, it is important not only to provide supportive proof from Qur'ān and sunnah, but to do so in a way that satisfies the rational human mind.

### 2.2 Principle 1: Absolute Truthfulness of Divine Revelation

#### The Claim

Truth is an abstract concept without physical form or being. The human capacity to lie and conceal information has invested any claim to ultimate truth with an element of doubt. The elimination of doubt from such a claim depends on at least five main factors, namely: the source of the claim; the content of the claim; the interests served by the claim; the ability and strength to face challenges against the claim; and the survivability of the claim. We shall now examine each of these factors in turn, in relation to Prophet Mohammad's claim to be the final Messenger of Allah (s.w.t.).

#### *The Source of the Claim*

When an individual claims something to be true, the most immediate human response is to consider the individual's personality and weigh up the claim in the light of his or her general demeanour. If people are persuaded of the claimant's veracity, then they may accept the claim on the strength of character alone, even before having much regard to its content.

Of much relevance here is the fact that the Prophet Mohammed (s.a.w.) was known as "the Honest" and "the Trustworthy" in a society where such virtues were deeply admired and highly regarded. The Arabian society of his time would never have bestowed such titles upon anyone who had not genuinely earned them. The Prophet (s.a.w.) enjoyed the privilege of these titles consistently throughout his lifetime. His worthiness to hold them was never questioned until the day he received the revelation and began to proclaim it. For some people, the Prophet's (s.a.w.) claims were simply an extension of his already long-proclaimed honesty and trustworthiness. They could find no reason to deny his claim as an absolute truth. Those who rejected the Prophet's (s.a.w.) claims offered many and various reasons for their rejection, but doubt as to the Prophet's (s.a.w.) veracity was not among them.

### *The Content of the Claim*

The whole Islamic message is based on a single truth that the Prophet Mohammed (s.a.w.) made the core of his claim, which is that "there is no God but Allah and Mohammed is his last Prophet and final Messenger." Before anyone becomes a Muslim he should be free to investigate this single truth fully, in every detail, but no one can be considered a Muslim unless he or she first bears witness to its absolute truthfulness. Any other Islamic issue is dependent upon full submission of the matter to this single truth which must be the starting point of any Islamic subject.

*"Say: The truth is from your Lord" let him who will believe, and let him who will reject*  
 ...<sup>107</sup>

### *The Interests Served by the Claim*

Human actions are driven by mundane interests, which are in some cases direct or indirect self-interests, and in other cases ideological interests based on belief or morality. In general, the more self-interest that is attached to the claim, the more doubtful that claim is, and vice versa.

Prophet Mohammed's (s.a.w.) claim was absolutely ideological, based

107 Qur'an 18:29.

on belief supported by logic and reality. Combined with this was a non-mundane self-interest arising from the requirement that Islam places upon an individual to give rather than to receive, and to continue giving until it becomes a major feature of his or her life.

*So he who gives and fears and testifies to the Best, We will indeed make smooth for him the path to Ease.*<sup>108</sup>

Mohammed (s.a.w.) expressed his non-mundane self-interest when the leaders of his people gathered and offered him money, leadership and authority over them in return for dropping his claim. He refused, making the famous statement:

*Were I to be given the sun in my right hand and the moon in my left to abandon what I proclaim, I would not do it.*<sup>109</sup>

The Qur'an has stated clearly that the Prophet (s.a.w.) has no mundane interest in his claim:

*Say: "Whatever reward do I ask of you: it is yours: my reward is only due from Allah and He is witness to all things."*<sup>110</sup>

### *The Ability and Strength to Face Challenges Against the Claim*

Anyone claiming knowledge or skill must not only be prepared to accept a challenge to that claim, but must also have the strength to match the challenge. For the Prophet Mohammed (s.a.w.), his claim to be the Messenger of Allah (s.w.t.) brought many challenges upon him. These he faced down with vigorous debate, the intellectual conclusion of which remains strongly in favour of Islamic belief wherever that debate is fairly reproduced.

In many cases, the Qur'an reports the questions which were asked of the Prophet (s.a.w.) and then goes on to provide answers:

*They ask thee concerning fighting in the prohibited month. Say: 'Fighting therein is a grave (offence) ...'*<sup>111</sup>

*They ask thee concerning wine and gambling. Say: 'In them is great sin, and some*

108 Qur'an 92:5-7.

109 Hadith Sahih in Sirat ibn Hisham, Vol. I, p. 278.

110 Qur'an 34:47.

111 Qur'an 2:217.



*profit, for men; But the sin is greater than the profit'. They ask thee how much they are to spend. Say: 'What is beyond your needs'.<sup>112</sup>*

*They ask thee concerning women's courses. Say: 'They are a hurt and pollution so keep away from women in their courses, and do not approach them until they are clean'.<sup>113</sup>*

*They ask thee concerning the spirit. Say: 'The spirit is of the command of my Lord. Of knowledge it is only a little that is communicated to you (O men)'.<sup>114</sup>*

These challenges and many more besides are recorded in the Qur'ān or narrated in the sunnah. It should be noted that the responses provided in the Qur'ān begin with the word "say", which confirms that the answer is not from the Prophet (s.a.w.) but rather from Allah. The Prophet (s.a.w.) could therefore be certain that the answers were correct and this in turn helped him withstand such challenges.

### *The Survivability of the Claim*

Since modes of living undergo dynamic changes through time, to have the truthfulness of a claim survive intact through one and a half millennia of varied technological and societal conditions is a testament to the durability of the claim. This is especially so if the claim is recorded and maintained in its original wording throughout that time.

### **The Qur'ān and the Sunnah**

For Muslims, the Qur'ān is the word of Allah (s.w.t.) that was revealed to the Prophet Mohammed (s.a.w.) through the angel Gabriel in the Arabic tongue. It is a book of finite words and letters that carries infinite meanings. Among Muslim thinkers, the difference between the Qur'ān and any other book can be understood on two levels. The first is the difference between the Qur'ān as Allah's word and other books as the words of human beings. At this level there is no comparison whatsoever between a very limited human being and the entity of Allah (s.w.t.), who is the Creator of man himself, and who bestowed him with the entirety of what he is and what he has, including his intellectual and linguistic gifts. The second level is the difference between the Qur'ān as the word

112 Qur'ān 2:219.

113 Qur'ān 2:222.

114 Qur'ān 17:85.

of Allah (s.w.t.) and those books considered by other faiths also to be His word. At this level the difference comprises several elements, as follows.

Prior to the revelation of the Qur'ān, Allah's words were revealed only to certain people at a specific time and place. In contrast, the Qur'ān was revealed to all of mankind, everywhere, and its validity will remain until the Day of Judgement. Thus, according to Islam, while other holy books are indeed considered to be the word of Allah (s.w.t.), they are believed to have been superseded by the Qur'ān. Furthermore, unlike the Qur'ān, no other book considered as holy exists today in its original words, nor in many cases its original language.

*Say: 'O men I am sent unto you all, as a Messenger of Allah to whom belongeth the dominion of the heavens and earth. There is no God but He. It is He that giveth both life and death. So believe in Allah and his Messenger the unlettered Prophet, who beareth in Allah and His words: follow him that (so) ye may be guided'.<sup>115</sup>*

*And before thee We sent none but men, to whom We granted inspiration: if ye realise this not, ask of those who possess the Message. (We sent them) with Clear Signs and Scriptures (We sent the Messengers). And We have sent down unto thee (also) the Message, that thou mayest explain clearly to men what is sent for them, and that they may give thought.<sup>116</sup>*

Allah (s.w.t.) makes clear within the Qur'ān itself that He is preserving its text from human distortion. This protection is maintained not only through the vast number of printed issues that exist throughout the world, but also because of the oral tradition in which people of differing tongues have memorised the entire Qur'ān, at different times and places, from one generation to the next. Such memorisation has continued in the same language and recitation as was revealed to the Prophet Mohammed (s.a.w.) from Allah (s.w.t.) through the Angel Gabriel.

*We have without doubt sent down the Message, and We will assuredly guard it (from corruption).<sup>117</sup>*

115 Qur'ān 7:158.

116 Qur'ān 16:43-44.

117 Qur'ān 15:9. In explaining this verse, the selected translation states that, "The purity of the text of the Qur'ān through fourteen centuries is a foretaste of

The Qur'ān is the only Divine script which today remains in its original wording and the fact that human intellect is not capable of matching the Divine has been a significant factor in preventing distortion of its text. When asserting that the Qur'ān is the word of Allah (s.w.t.), Muslims often point to the linguistic precision of the Qur'ān when describing scientific and other facts which could not have been known at the time of revelation by means of the available technology. These instances demonstrate that the words contained in the Qur'ān could not have been the words of a human being. This whole phenomenon, commonly known as the "Miracles of the Holy Qur'ān",<sup>118</sup> is a major subject within Islamic literature.

For example, in the Qur'ān it is stated that its words will be the last revelation, and that the Prophet Mohammed (s.a.w.) will be the final genuine prophet and messenger. To the present day, these prophecies remain widely accepted even beyond the Muslim world.

*Mohammed is not the father of any of your men, but (he is) the Messenger of Allah and the Seal of the Prophets.*<sup>119</sup>

As for the sunnah of Prophet Mohammed (s.a.w.), this includes a detailed description of his life, which is an application of the Qur'ān in its purest human form. The subject of the sunnah can be seen as three circles within each other. The wider circle represents the Prophet (s.a.w.) as a final Messenger to all humanity:

*Say: O men I am sent unto you all, as a Messenger of Allah ...*<sup>120</sup>

The intermediate circle represents Prophet Muhammad (s.a.w.) as a leader of his followers in a struggle between truth and falsehood, showing them the way to transform any human society into an Islamic society, and setting the standard for such leadership.

*A similar favour have ye that We have sent among you a Messenger of your own*

the eternal care with which Allah's Truth is guarded through all ages. All corruptions, inventions, and accretions pass away, but Allah's pure and holy Truth will never suffer eclipse even though the whole world mocked at it and was bent on destroying it." (*The Holy Qur'ān*, 1410 AH, p. 712).

118 Al-Sha'rāwī, 1991, *op. cit.*

119 Qur'ān 33:40.

120 Qur'ān 7:158.

*rebearing to you Our Signs, and purifying you and instructing you in Scripture and Wisdom and in new Knowledge.*<sup>121</sup>

The dominant value in this circle is the ruling regarding the conduct of affairs beyond the sphere of revelation as mentioned in the following verse:

*... who conduct their affairs by collective decision.*<sup>122</sup>

The innermost circle represents the human side of Prophet Muhammad (s.a.w.) as an individual who differs from others in his life experiences, tastes and preferences. Ibn 'Abbās, may Allah (s.w.t.) bless him, said:

*Khalid ibn al-Walid and I went with the Messenger of Allah (s.a.w.) in to Mimona's house. Then a grilled Dab<sup>123</sup> was brought to us and when the Prophet (s.a.w.) approached to eat it, some women called for the Prophet to be informed about what he is about to eat, so I asked the Prophet 'this is a (Dab) would you eat it?'. The Prophet pulled his hand back and did not eat it, then I asked 'O Messenger of Allah is it forbidden to eat it?' The Prophet said 'No, but where I come from we do not have such a thing, that is why I cannot bring myself to eat it'. Khaled said: 'I dragged it (the Dab) and I ate it all while the Prophet was watching.'<sup>124</sup>*

An ability to differentiate between the above three circles is essential when dealing with the sunnah.

### The Nature of Islamic Rules

The Islamic rules for individuals and society alike are extracted from the Qur'ān or the sunnah of the Prophet (s.a.w.). According to Islam, Allah (s.w.t.) is the absolute ruler and the ultimate judge in this life as well as the next. He described His rules in perfect words throughout the Qur'ān and guided the Prophet Mohammed (s.a.w.) to be the perfect human application of His rules, whatever these rules prescribed. Whether an act of worship, or a condition for some form of human interaction, Islam asserts that it is within the ability of every individual or society

121 Qur'ān 2:151.

122 Qur'ān 42:38.

123 Dab (Uromasty) is an animal that looks like a crocodile. Its length is about 85cms when fully grown. It lives in the desert eating vegetables and rarely drinks water.

124 Al-Bukhārī, *op. cit.*, Book 69, No. 5391.



to apply these rules, given sufficient time. Furthermore, the rules are flexible enough to accommodate the wide range of differences between people and cultures. In the coming discussion, I intend to clarify several features of these Islamic rulings. Understanding them is essential to, and sometimes a condition of, their application.

*On no soul doth Allah place a burden greater than it can bear. It gets every good that it earns and it suffers every ill that it earns ...*<sup>125</sup>

A common feature of the Islamic rulings is the consideration of every individual as a complex entity which is dependent for his or her survival on interaction with other human beings. In all Islamic rules, the balance of interactions between human beings is perfectly preserved. To achieve this balance, it is necessary to apply what are known as the "maqāṣid al-sharī'ah" (sharī'ah objectives). These seek to protect the following essential aspects of life:

- Faith: Islam has made the first priority of its legal system to be the protection of faith from those who attack it or hinder its practice. That is why Islam has ordered worshipping rituals such as fasting and praying, and encouraged fighting back if attacked by those who oppose it.
- Life: Islam has prohibited anything that ruins life or corrupts it in any form. This, for example, is why Islam has prohibited suicide and the killing of others except as an application of an Islamic legal procedure.
- Intellect: Islam encourages everything that protects the mind and has prohibited whatever makes it weak or corrupt. That is why intoxication and gambling are prohibited in Islam. Thus, every individual can maintain his or her full intellectual capacity, with dignity, and be free from the influence of addiction.
- Honour and Lineage: Islam has encouraged the protection of lineage and this is why it has prescribed marriage as an institution within which sexual relationships can take place.
- Wealth: Islam has paid due attention to the protection of wealth and it has applied severe punishment to those who appropriate wealth through theft or fraud. This is one reason for the prohibition of usury in Islam.<sup>126</sup>

<sup>125</sup> Qur'ān 2:286.

<sup>126</sup> Al-Huṣary, 1984, p. 29-30.

### *Flexibility*

Each rule or condition in sharī'ah has its own element of flexibility. Either the rule itself may be relaxed to suit the situation of the individual or the application of the rule or its conditions may be changed according to the circumstances of the individual. For example, the obligation to pray five times a day is fixed. Every Muslim has to pray five times a day, at a certain time for each prayer, in a certain way. But in the case of illness, while the obligation to pray remains, the manner of praying may be changed to suit the conditions of the illness. Nevertheless, under any condition, a Muslim must pray in the way he or she is able to. Fasting, on the other hand, has a different degree of flexibility. A traveller is not obliged to fast, and the one who is ill or old does not need to fast at all. An alternative to fasting is giving, such as feeding others instead of fasting oneself.

### *The Transition Period*

It took Prophet Mohammed (s.a.w.) some twenty three years to complete his mission and to spread the message of Islam. During this time he received the complete text of the Qur'ān, not in the order that we know today, but according to an order that was appropriate for dealing with the daily events of the society around him. That society, like any other society, represented a cross-section of humanity, both good and bad.

The main objective of sharī'ah is to encourage good values, behaviour and manners, and to diminish bad ones, in order to establish justice with optimum freedom among all members of the society. In order to achieve this objective, the Prophet (s.a.w.) had to build a strong foundation of belief based upon the existence of Allah (s.w.t.), and no God but Him, and upon the Prophet Mohammed as His final messenger. Progress towards the reorganisation of society could then take place. It was a transformation that had its own set of priorities, and all of this took time.

These two vital elements, priority and time, are embodied within the methods of the Islamisation of any society. They must be taken into consideration when applying the foundation of Islamic economics and when dealing with political Islam. Priorities may differ from one society



to another so that the time needed may be longer or shorter, but neither of these two elements can be neglected. Where due consideration is not given to them, social transformation can easily be jeopardised, and undesirable outcomes may be inevitable.

### *The Rules of Necessity*

The rules of shari'ah aim to protect the life of human beings in general. This is an essential foundation for Islam as a religion. In exceptional situations, where life may be threatened as a result of applying a certain Islamic rule, the rule can be suspended in a way sufficient to protect life until the situation returns to normal. This concept is exemplified in the Qur'an with the case of eating unlawful meat, and it is mentioned five times in four chapters:

*He hath only forbidden you dead meat, and blood, and flesh of swine, and that on which any other name hath been invoked besides that of Allah. But if one is forced by necessity without wilful disobedience, or transgressing due limits, then is he guiltless. For Allah is oft-forgiving Most Merciful.*<sup>127</sup>

*Forbidden to you (for food) are: dead meat, blood, the flesh of swine, and that on which hath been invoked the name of other than Allah, that which hath been killed by strangling, or by a violent blow; or by headlong fall, or by being gored to death; that which hath been (partly) eaten by a wild animal; unless ye are able to slaughter it (in due form); that which is sacrificed on stone (altars); (forbidden) also is division (of meat) by raffling with arrows: that is impiety. This day have those who reject faith given up all hope of your religion: yet fear them not but fear Me. This day have I perfected your religion for you, completed my favour upon you, and have chosen for you Islam as your religion. But if any is forced by hunger with no inclination to transgression, Allah is indeed Oft-forgiving, Most Merciful.*<sup>128</sup>

*Why should ye not eat of (meats) on which Allah's name hath been pronounced, when He hath explained to you in detail what is forbidden to you except under compulsion of necessity?*<sup>129</sup>

*Say: I find not in the message received by me by inspiration any (meat) forbidden to be*

127 Qur'an 2:173.

128 Qur'an 5:3.

129 Qur'an 6:119.

*eaten by one who wishes to eat it, unless it be dead meat, or blood poured forth, or the flesh of swine - for it is an abomination - or what is impious, (meat) on which a name has been invoked, other than Allah's.' But (even so), if a person is forced by necessity, without wilful disobedience, nor transgressing due limits, thy Lord is Oft-forgiving Most Merciful.*<sup>130</sup>

*He has only forbidden you dead meat, and blood, and the flesh of swine, and any (food) over which the name of other than Allah has been invoked. But if one is forced by necessity, without wilful disobedience, nor transgressing due limits, then Allah is Oft-forgiving, Most Merciful.*<sup>131</sup>

Although the rules of necessity are prescribed in relation to the prohibition of different kinds of meat, they have been given a general application by ijti'hād so as to apply in any situation where life is threatened.

### *The Concept of "Fusūq"*

Allah (s.w.t.) says in the Qur'an:

*Behold! We said to the angels, Prostrate to Adam': They prostrated, except Iblis. He was of the jinns and he broke the Command of his Lord.*<sup>132</sup>

The word "broke" is the translation of the Arabic word "fasaq" which comes from the soft date when its skin is broken and it begins to rot as a result. Metaphorically, the concept here is that Allah's command surrounds human beings with a layer of protection. Breaking this layer will rot human life just as the date rots when its skin is broken. Similar to this meaning is the word "fusaiyqah" which refers to the little mouse which leaves the protection of its hole, and immediately becomes vulnerable to all kinds of attack.<sup>133</sup>

130 Qur'an 6:145.

131 Qur'an 16:115.

132 Qur'an 18:50.

133 Al-Masri, op. cit.



### 2.3 Principle 2: The Life-Test – A Test of Every Choice

Allah (s.w.t.) says:

*That which is on earth We have made but as a glittering show for it, in order that We may test them – as to which of them are the best in conduct.*<sup>134</sup>

According to Islam, life has a purpose, and this purpose can only be decided by the Creator. In the Qur'ān, Allah (s.w.t.) explains that this life is temporary and that the cycle of death and life is designed to test humans, in order to distinguish one from another, so that each may be rewarded or punished according to their deeds in an eternal afterlife.

*Blessed be He in Whose hands is Dominion; and He over all things Hath Power, He Who created Death and Life, that He may try which of you is the best in deed.*<sup>135</sup>

The idea of a life-test and accountability begs the question of whether human will is predetermined or whether everybody enjoys total freedom in the exercise of his own will. It is to this question that we now turn.

#### Free Will and Predetermination

A common misconception in the matter of free will and predetermination often arises from the way in which the matter is addressed. It is invariably assumed that the answer must be either that human beings are endowed with total command over their own will, or that human will is completely predetermined. Neither of these assumptions is correct.

There is no doubt that everybody comes into and goes out of this life without any exercise of his own will. For someone to maintain life, he must at least breathe, drink and eat, and insofar as there is no choice in these actions, it may be said that they are predetermined. Everyone must perform them or die, so in each human life there are at least some predetermined elements.

Clearly, the concept of total predetermination does not apply to every area of human activity since there are some in which the individual is able to exercise his own will, either with complete freedom or within a set of prescribed limits, according to the situation at hand. In such cases,

134 Qur'ān 18:7.

135 Qur'ān 67:1-2.

individuals are at liberty to decide and select for themselves from all the possible alternatives that are available. They may even choose to limit their choices to a narrower or more structured set within the prevailing options. Without some free will, it would be impossible for the life-test to take place, yet this free will is practised under the influence of human instinct and the prevailing social order. After all, each human being is a composite of factors that are peculiar to him or herself and which, soon after birth, begin to cast and form personality traits within the social framework of society.

#### Breathing: A Significant Phenomenon

The first activity that keeps us alive is breathing. There is only one basic type of air, to which human beings have free access, and there is no choice but to breathe this same air that everybody else breathes. There is no exercise of will associated with the practice of breathing, since breathing is an instinctive thing. Neither is there any choice in doing so. Hence there is no test in breathing.

The second activity which keeps us alive is drinking. As with breathing, we all have to drink in order to stay alive. But it requires a greater effort to obtain a drink than it does to take in the air we breathe and there is more than one choice in the matter of what to drink. Water can be obtained from more than one source, and since we have a choice in this matter, there is then an opportunity for us to exercise our own will. According to the Islamic concept of life-test, this opportunity of exercising one's own will only arises for one purpose, and that is as a test. For example, to choose an intoxicating drink is not permitted under the law of Islam.

In the matter of eating, there is a still greater variety of choice and so the test becomes more sophisticated as reported in the aforementioned verse of Qur'ān 5:3. So it is easy to see that at least part of human life is founded upon an element of choice. These choices have been given in order to test everyone, and for every choice there must be a test. This important fact has been explained in the Qur'ān 67:1-2 above.

However, the life-test does not always come in the form of a choice between good and bad. Sometimes a choice may emerge between two



good things, or even two bad things. In matters of good, the reward of the life-test is available for both actions and intentions, but for that which is bad, the punishment comes only when a bad intention is acted upon. A bad intention not acted upon is in fact rewarded.

*They said: 'Truly Joseph and his brother are loved more by our father than we: But we are a goodly body! Really our father is obviously in error. Slay ye Joseph or cast him out to some (unknown) land, that so the favour of your father may be given to you alone: (There will be time enough) for you to be righteous after that!' Said one of them: 'Slay not Joseph, but if ye must do something, throw him to the bottom of the well; he will be picked up by some caravan of travellers.'*<sup>136</sup>

In the above case, while throwing Joseph to the bottom of the well was not a good action in itself, it was obviously much better than killing him. The one who mentioned this idea did so in order to give Joseph a chance to live, not in order to do him harm.

Although every human being has some scope for free will, the practise of this free will is overpowered by the will of Allah (s.w.t.). In short, nothing happens without Allah (s.w.t.) allowing it to happen, and the supremacy of Allah's will is part of the ultimate Divine wisdom. It is a fixed condition that maintains the order of life. This fact of life has been addressed in the Qur'ān as follows:

*But ye will not, except as Allah wills, for Allah is full of knowledge and wisdom.*<sup>137</sup>

*But ye shall not will, except as Allah wills, the Cherisher of the Worlds.*<sup>138</sup>

This fixed condition is one of the things that humanity cannot alter, but must instead deal with as per the instruction that was revealed to Prophet Muhammad (s.a.w.):

*Never say of anything 'I shall be sure to do so and so tomorrow' except (with the saying) 'If Allah so wills' ...*<sup>139</sup>

That is why Muslims have developed the Arabic phrase "in-sha'Allah" which means literally "if Allah wills". According to Islamic belief, uttering this phrase when speaking of any future plan is a form of

136 Qur'ān 12:8-10.

137 Qur'ān 76:30.

138 Qur'ān 81:29.

139 Qur'ān 18:23-24.

submission to the fixed condition that the human will is absolutely overpowered by the will of Allah (s.w.t.).

An associated fixed condition in this matter is that the exclusive knowledge of every human affair from beginning to end and throughout time is a part of Allah's divinity. This knowledge includes the foreknowledge of what each human being's choice will be and is explained in the famous verse known as Āyat al-Kursy ("the Throne") which has a significant place in Islam. Although this verse signifies the all-knowing nature of Allah (s.w.t.), in no way should Allah's foreknowledge of human choices be taken to imply that He has predetermined what they will be.

*Allah! There is no God but He, the Living, the Self-subsisting, Supporter of all. No slumber can seize Him. Nor sleep. His are all things in the heavens and on earth. Who is there that can intercede in His presence except as He permitteth? He knoweth what (appeareth to His creatures as) before or after or behind them. Nor shall they compass ought of His knowledge except as He willeth. His throne extends over both the heavens and the earth, and He feeleth no fatigue in guarding and preserving them for He is the Most High, the Supreme (in Glory).*<sup>140</sup>

## 2.4 Principle 3: Precision and Natural Balance

The physical side of life depends on materials and energy which are generated on earth or arrive from space.<sup>141</sup> Each substance comprises one or more elements, and although the total number of elements is very limited, the number of substances created by mixing these elements together in differing quantities is huge. All forms of life, including human life, depend on the consumption and emission of these elements. Different creatures consume what others produce and hence, as a whole, the consumption-production process achieves complete recycling. Without this balanced mechanism, life could not continue, and for the mechanism to work every substance has to have precise properties, be of a precise quantity, and in a precise location. With regard to precision, the Qur'ān makes this point as follows:

<sup>140</sup> Qur'ān 2:255.

<sup>141</sup> Qur'ān 57:25 reads as follows: "We sent down iron ...". It is a relatively recent discovery that iron arrived on earth from beyond our solar system.



*Verily, all things have We created in proportion and measure and Our Command is but a single Word like the twinkling of an eye.*<sup>142</sup>

*He to Whom belongs the dominion of the heavens and the earth: no son has He begotten, nor has He a partner in His dominion: It is He Who created all things, and ordered them in due proportion.*<sup>143</sup>

*And He provides for him from (sources) he never could expect. And if anyone puts his trust in Allah, sufficient is (Allah) for him. For Allah will surely accomplish His purpose: Verily, for all things has Allah appointed a due proportion.*<sup>144</sup>

*Allah doth know what every female (womb) doth bear, by how much the wombs fall short (of their time or number) or do exceed. Every single thing is with Him in (due) proportion.*<sup>145</sup>

Regarding the issue of natural balance, the Qur'an mentions this:

*And the earth We have spread out (like a carpet); set thereon mountains firm and immovable and produced therein all kinds of things in due balance.*<sup>146</sup>

*And the firmament has He raised high and He has set up the balance (of justice) in order that ye may not transgress (due) balance. So establish weight with justice and fall not short in the balance.*<sup>147</sup>

The Earth and what it contains is nearly isolated by a belt of atmospheric gases and cloud and moves in an orbit surrounded by a vast number of stars and planets. The Earth's position and orbit allows it to receive energy from the sun and reflected light from the moon, and unless this position and movement is sustained consistently, the Earth would not be able to produce the cycle of life on which we all depend and which Allah (s.w.t.) has guaranteed:

*And a sign for them is the night: We withdraw therefrom the Day, and behold they are plunged in darkness; And the sun runs unto a resting place, for him: that is the decree*

142 Qur'an 54:49.

143 Qur'an 25:2.

144 Qur'an 65:3.

145 Qur'an 13:8.

146 Qur'an 15:19.

147 Qur'an 55:7-9.

*of (Him) the Exalted in Might, the All-Knowing. And the Moon, we have measured for her stations (to traverse) till she returns like the old (and withered) lower part of a date-stalk.*<sup>148</sup>

Everything has a life span which remains active by interaction with other things and so creates a chain of interaction. This chain must be in balance at all times. In non-human systems, the balance is achieved without human intervention because such systems function according to the properties that drive them, without choice. Humanity, however, is different for the following reasons.

Because everything non-human has been created to serve humanity, non-human systems must be in a general balance in order that human beings can make the best use of them. This general balance does not depend upon human actions in any way, since it is essential in order for the life-test to take place. Yet, for every bad choice that human beings make, the balance can be upset to a certain degree. This in turn will have a negative effect on human life, and such effects will accumulate until human beings are sufficiently motivated to take corrective action in order to restore the balance. Balance, therefore, has the nature of a range rather than a fixed point, but overall humanity is the beneficiary of the balance not the cause of it. This position is important to ensure that the equation of existence remains valid.<sup>149</sup>

As an example of this, we can consider the fact that during daylight hours green plants take in carbon dioxide and give out oxygen. Meanwhile, human beings breathe in oxygen and breathe out carbon dioxide. From this, it might seem that humans play an essential part alongside plant life in maintaining the balance between oxygen and carbon dioxide in the earth's atmosphere. However, the reality is that sufficient oxygen would remain in the earth's atmosphere irrespective of the damage that mankind might inflict upon the environment, since this is essential for the continuation of the life-test. Those who fear that man's actions will destroy the world can likewise be assured that the world will only end when Allah (s.w.t.) decides so.

The environmental effects of human choices move in and out of

148 Qur'an 36: 37-40.

149 See the "equation of existence" in section 1.4.

natural balance, in favour or against human interest, according to how completely human beings are applying Divine rules. Through its intellectual capacity, humanity has been blessed with the capability to perceive the need to achieve balance, and this goal in turn requires that justice be established on earth. Striving towards this goal is a part of everybody's life-test.

### The Property of Material Properties Co-ordination

Natural balance is to some extent related to the properties of all materials in existence, but even more important is how the properties of different materials co-ordinate together to help create the complex products and instruments upon which humanity relies.

For example, if we examine the ingredients of a loaf of bread, we will find that it is made from flour, salt, water and heat (energy). Yet without the co-ordination which makes these four ingredients combine together to produce a loaf of bread, the property of each would not be useful. This "material properties co-ordination" is of course applied in much more complex ways to produce such things as cars, space stations and information technology hardware.

Natural balance is not only concerned with the properties of materials that exist, but also, and more importantly, with the concept of the co-ordination of the properties of materials.

### Human Balance

Every human being is equipped with Divine knowledge to enable him or her to perceive both their destructive and productive sides. This could be described as internal self balance.

*By the soul, and the proportion and order given to it, and its inspiration as to its wrong and its right.*<sup>150</sup>

When the Devil realises that he has failed his test, he takes a pledge to use all of his powers to tempt and attract human beings towards failing their tests too.<sup>151</sup>

<sup>150</sup> Qur'an 91:7-8.

<sup>151</sup> See "The Notion of Worship" in Chapter 1.

*He said: 'Because thou hast thrown me out (of the Way), lo! I will lie in wait for them on Thy Straight Way: Then will I assault them from before them and behind them, from their right and their left: nor wilt Thou find, in most of them gratitude (for Thy mercies).'*<sup>152</sup>

This external impetus for deviation needs to be countered by an opposing external guidance that helps to keep humanity in balance. Hence the mission of Allah's Messengers and Prophets:

*...nor would We punish until We sent a Messenger (to give warning).*<sup>153</sup>

During life, humans are often out of balance as a result of the Devil's influence. The consequences of this loss of balance are usually negative for society as a whole, directly or indirectly. In this sense, by allowing themselves to become out of balance, human beings are actually being unjust to themselves. The Qur'an has expressed this concept as follows:

*Mischief has appeared on land and sea because of (the meed) that the hands of men have earned, that (Allah) may give them a taste of some of their deeds: in order that they may turn back (from evil).*<sup>154</sup>

It is the situation of the human soul, between the two opposing forces of good and evil, like two opposite magnetic poles, which provides energy for the huge variety of human activity. After life, when human actions cease and the test is done, the ultimate balance occurs in absolute fairness on the Day of Judgement.

*Then shall anyone who has done an atom's weight of good, see it! And anyone who has done an atom's weight of evil shall see it.*<sup>155</sup>

### The Economic Problem

Many economic textbooks start with the introduction of "the economic problem"<sup>156</sup> which deals with how to reconcile the conflict between

<sup>152</sup> Qur'an 7:16-17.

<sup>153</sup> Qur'an 17:15.

<sup>154</sup> Qur'an 30:41.

<sup>155</sup> Qur'an 99:7-8.

<sup>156</sup> Dornbusch and Fischer, 1988. See also Taylor and Keith, 1987; and Parkin and Bade, 1988.



peoples' virtually limitless desire for goods and services and the scarcity of resources such as land and labour.<sup>157</sup> This idea of an economic problem is still a major justification for the subject of economics, despite the illusive nature of its meaning. How, for example, is desire to be defined in economic terms? And can it really be said that labour resources are scarce when unemployment is one of the major and most persistent problems facing the world economy?

The main underpinning of this so-called economic problem is the concept that there is an imbalance in nature that requires man's intervention to solve. This is a clear contradiction of Islamic belief concerning the natural balance. Islamic economic prescriptions aim to retain the existing natural balance by working to achieve economic justice, emphasising such objectives as fair distribution of wealth and proper regard for the environment. It also aims to stop the violation of the very Divine rules which seek to keep the human economy in balance.

In his discussion of Islamic economics, Abdul Rahmān Yusri Ahmed writes that it is a science which:

*... investigates the use of resources and human labour which Allah gives to the society ... to produce the maximum of goods and services in order to satisfy the needs of the individuals of the society in the present and the future, and it also investigates finding the suitable conditions for distributing it evenly among the individuals in a fair manner that goes along with the traditions of the Islamic Shari'ah.*<sup>158</sup>

This way of approaching Islamic economics takes as its basis the explanation of the 'economic problem' given by Western economists.

Another approach can be extracted from the Prophet's ḥadīth (s.a.w.) in which he says:

*The two feet of the son of Adam will not move on the Day of Judgement in front of his Lord until he is asked about five things: about his life and how he spent it? And about his youth, what did he consume it in? And about his money, how did he earn it? And what did he spend it on? And how much did he act upon what he knew?*<sup>159</sup>

157 Kamal 1986, p. 18.

158 Ahmed 1988, p. 30.

159 Narrated by Abdullah bin Mas'ud in al-Tirmidhi, 5197.

From this ḥadīth, it can be understood that one of the most important questions on the Day of Judgment concerns money, for an individual will not be asked only about the source of his money, but also about the things on which it has been spent. Based on this, Ahmed defines Islamic economics as:

*The science which investigates the way in which economic activity can be organized for the Muslim Ummah as individuals and as groups which might lead to acquiring legitimate income and then spending them in a manner that pleases God the Almighty.*<sup>160</sup>

According to Taki ad-Dīn al-Nabhani, Islam deals with wealth separately from the way people benefit from it. Thus, for example, Islam deals with the methods of gaining wealth separately from the methods of storing it. Clear limitations have been established on the way Muslims benefit from material wealth, such as the prohibition of eating dead animals, drinking wine, and so on. Production and the making of profit are encouraged in general, but the method or volume of production are among the decisions that are left for people to decide for themselves. Money and material wealth have been created to benefit human beings in any permissible way they see fit, and may be produced in whatever way their capabilities allow.

While Islam is indeed interested in the economic system, and with the welfare of every individual in a society, it tends not to address the areas of economic science in which such issues as economic performance and efficiency maximisation are analysed.<sup>161</sup> Islamic economic policy will not seek to improve the average living standard of a whole society while neglecting some of the individuals within it, nor does it seek to maximise wealth while leaving people to use wealth as they see fit. Instead, Islam tries to deal with the essential problems faced by every individual based upon principles of justice and human responsibility at the personal level, and thereby improve the standard of living for all. This is a key difference between the Islamic approach to economics and those approaches which do not focus on the individual.

Mohammed Umer Chapra speaks of the Islamic economic system as follows:

160 Ahmed 1988, p. 31.

161 Al-Nabhani 1990, pp. 60-61.

*Islam is not an ascetic religion and does not aim at depriving Muslims of the good things that Allah Almighty has provided in this world. It takes a positive view of life considering humans not as born sinners eternally condemned for their original sin, but as vicegerents for whom everything on earth has been created. Virtue in Islam, therefore, lies not in the business of God, but in enjoying them within the framework of the values for righteous living through which Islam seeks to promote human welfare. The values for righteous living that Islam propagates permeate all sectors of human activity. There is no strictly mundane sector of life according to Islam. Action in every field of human activity, including the economic, is spiritual provided it is in harmony with the goals and values of Islam.<sup>162</sup>*

In that sense, these goals and values are the ones that determine the nature of the economic system of Islam. A proper understanding of these goals and values is therefore essential for a better perspective of the economic system of Islam. According to Chapra, these goals and values are: i) economic well-being and the moral norms of Islam; ii) universal brotherhood and justice; iii) equitable distribution of income; and iv) freedom of the individual within the context of social welfare.

This list of goals is by no means complete, but should provide a sufficient framework for discussing and elaborating the Islamic economic system and highlighting those characteristics which distinguish the Islamic system from the two prevalent systems of capitalism and socialism.<sup>163</sup>

### Normative versus Positive

Conventional human science as a whole, including the subject of economics, is based upon secular thinking and pure scientific thinking. One of its fundamental requirements is to be "positive" which means to answer questions of the "what is?" rather than the "what ought to be?" variety. The latter form of enquiry is widely described as being "normative".<sup>164</sup>

The positivist approach to human science was produced to counteract the normative nature of its rival, namely religion. It was devised as a

barrier to religious ideologies and to the normative beliefs and value judgements which accompanied them. While it can certainly be of use in identifying a human phenomenon, in order to deal with that phenomenon there is no escape from being normative. In any society, the approval or disapproval of a given activity, either by law or common morality, will necessitate the development of value judgements. These in turn will act, de facto, as a normative basis for that activity.

Islamic economics is based on the Divine rule of Islam which is fundamentally normative but does not reject the positivist approach when it is appropriate. Hence, for example, the laws of supply and demand, and the concept of equilibrium, are important tools that assist the Islamic understanding of economics in general. Therefore, from the Islamic perspective, there is nothing to stop elements of other economic theories from being entertained, each according to its merits.

### Production or Consumption?

The cycle of life in the real world is one of production and consumption. At first sight, it seems rather obvious that what is produced by some is consumed by others, but what exactly does humanity produce? In the process of producing a car, for example, humanity actually consumes the raw materials from which the car is made. From this it may be seen that the manufacture of cars is, in fact, a process of consumption rather than of production. Furthermore, the real product of this activity is waste. To be specific, it is waste of the unwanted by-products that arise during all such manufacturing processes, in addition to the waste of human beings themselves. It is therefore very important to realise that an obligation exists upon humanity to keep the consumption-production cycle in balance. Upsetting this balance may have a negative effect on the environment and create "externalities"<sup>165</sup> which eventually result in further negative consequences elsewhere.

<sup>162</sup> Chapra 1986, p. 30.

<sup>163</sup> Chapra 1986, p. 31.

<sup>164</sup> Varian, 1984.

<sup>165</sup> Dornbusch and Fischer, *op. cit.*, p. 233.



## 2.5 Principle 4: Sustenance Independency

A fourth principle of Islamic belief is that of "sustenance independency".<sup>166</sup> Sustenance is a word rarely used today. State control over many natural resources and widespread trade has made us believe that whatever goods or services we receive depend upon the policies of the state and the performance of the market. The concept of sustenance has thereby been narrowed to that which is nowadays known as "income". However, a person's income is only part of their sustenance. The part of sustenance which falls outside income differs from one person to another, but in all cases income is only a small part of an individual's sustenance. We must also remember that while income and in particular wages and salaries can be calculated in monetary units, it is nevertheless true that people who receive the same wages and salaries do not spend them in the same way. Hence, even identical amounts of monetary income do not provide the same sustenance from one person to another.

All of this requires us to define in greater detail the meaning of the term "sustenance". The description given by the Prophet Mohammed (s.a.w.) includes two categories, firstly that which is destroyed by eating, and secondly that which is depreciated by wear and tear.<sup>167</sup> These two categories comprise the ultimate usage of sustenance, although the Prophet (s.a.w.) has mentioned them in order to signify rather than to define. Sheikh Sha'rāwī tried to define sustenance as "everything that can be made use of" but even under this definition entire elements of sustenance are omitted.<sup>168</sup>

The most accurate definition of sustenance is life itself. A person's sustenance is his life, which comprises what he is, what he owns, and what he utilises during his lifespan. More important than defining sustenance is the matter of how each individual obtains sustenance. Islam proposes that Allah (s.w.t.) provides sustenance to whom He wishes, without any formula known to humanity:

<sup>166</sup> The Arabic word for sustenance is "rizq".

<sup>167</sup> The Prophet (s.a.w.) said: "The son of Adam says, 'My wealth, my wealth!' Yet, what is your wealth except that which you eat and use up, wear and tear, and spend in charity and thus keep (in your record). Other than that, it will go away and will be left for the people (the inheritors)."

<sup>168</sup> Al-Sha'rāwī, 1991.

...for Allah bestows His abundance without measure, on whom He will.<sup>169</sup>

...for Allah provides sustenance to whom He pleases without measure.<sup>170</sup>

Sustenance is decided only by Allah (s.w.t.), and it therefore follows that, in Islam, the exchange of one element of sustenance for another can only be accepted according to rules which cover every kind of transaction and regulate the market in both goods and labour. The goals of respecting mutual need and achieving justice in all exchanges of sustenance are not contradictory to the Islamic view that the status of each individual's sustenance is independent of everyone else's. This "sustenance independency" principle is a major Islamic principle which has been conveyed in the Qur'ān in various ways:

Say: 'O Allah! Lord of Power (and Rule), Thou givest power to whom Thou pleasest, and Thou strippest off power from whom Thou pleasest: Thou enduest with honour whom Thou pleasest and Thou bringest low whom Thou pleasest: In Thy hand is all Good. Verily over all things Thou hast power'.<sup>171</sup>

"... and in heaven is your Sustenance, (as also) that which ye are promised. Then, by the Lord of heaven and earth, this is the very truth, as much as the fact that ye can speak intelligently to each other."<sup>172</sup>

In the above, we see how Allah (s.w.t.) gives an oath by His Lordship of heaven and earth to confirm the truthfulness of this principle and its importance in human life. It is narrated that when one Arab heard this oath he was troubled and asked who had upset Allah (s.w.t.) by doubting the fact of sustenance independency to the extent that Allah (s.w.t.) gave an oath to His words.<sup>173</sup>

Sustenance is not provided in the way that the secular mind has come to expect. This fact should give the Muslim peace of mind and save him or her the exhaustion of wondering from where sustenance will come. This meaning has been given in the following verse:

<sup>169</sup> Qur'ān 2:212.

<sup>170</sup> Qur'ān 3:37.

<sup>171</sup> Qur'ān 3:26.

<sup>172</sup> Qur'ān 51:22-23.

<sup>173</sup> Al-Qurtubi 1952, Vol. 17, p. 42.



... and for those who fear Allah, He ever prepares a way out and He provides for him from (sources) he never could expect ...<sup>174</sup>

Furthermore, the principle of sustenance independency requires full submission to the belief that everything a human being has in this life has been provided by Allah (s.w.t.). Claiming otherwise is a serious sin which may bring about a similarly serious punishment, as exemplified by the story of Qārūn who claimed that his wealth arose because of his knowledge:

*He said: 'This has been given to me because of a certain knowledge which I have'.<sup>175</sup>*

The punishment for that claim is described as follows:

*Then we caused the earth to swallow up him and his house, and he had not (the least little) party to help him against Allah, nor could he defend himself.<sup>176</sup>*

The response of the people around Qārūn is described thus:

*And those who had envied his position the day before began to say on the morrow: 'Ah! It is indeed Allah Who enlarges the provision or restricts it, to any of His servants He pleases!'<sup>177</sup>*

Thus the rabble which had admired Qārūn's wealth when he enjoyed worldly prosperity, came to understand that there are other gifts more precious and desirable, and that these may actually be withheld from men who enjoy wealth and worldly prosperity. It is false prosperity or, in the real sense of the word, no prosperity at all, which is without spiritual well-being. The people of Qārūn thereby came to understand the concept of sustenance independence. Allah (s.w.t.) provides using specific calculations known only to Him. Wealth and luxury does not depend on one's own knowledge or work, because Allah (s.w.t.) provides whomever He wants with whatever He pleases. In *al-Rizq*, al-Sha'rāwī<sup>178</sup> states that in doing so, Allah (s.w.t.) puts His will into perspective for all of us to comprehend. Allah (s.w.t.) is capable of providing without any identifiable reason, hence people's knowledge and efforts are not the direct means for their own sustenance.

174 Qur'an 65:2-3.

175 Qur'an 28:78.

176 Qur'an 28:81.

177 Qur'an 28:82.

178 Al-Sha'rāwī, 1990, pp. 65-68.

Many non-Muslims have looked at this concept to explain their supposition that Muslim nations are underdeveloped. They argue that if Allah (s.w.t.) is capable of providing everybody unrelated to their knowledge or effort, then nobody will have a sufficient motive to work. This however is a misconception because Islam has encouraged work as well as the pursuit of knowledge and attached great rewards to them in this world and in the hereafter. The concept of sustenance independence is not there to encourage people to be idle or ignorant. Rather, it proves the utmost power of Allah (s.w.t.) and comforts people with the knowledge that they have a God who can provide for them even when the cause of sustenance does not seem to be present. Al-Sha'rāwī says in this regard:

*Or how can a person function if his house was burned or all his assets lost? He needs to know that Allah is capable of providing him with no pre-conditions.<sup>179</sup>*

The Muslim works only to follow the laws of Allah (s.w.t.) in His world, and Allah indeed requires that a Muslim should work in order to receive provision. Yet sometimes an individual works, but rather than receiving provision from this work, he or she receives it from somewhere else. Such incidents clarify that sustenance is in the hands of Allah (s.w.t.), that He is the ultimate provider of sustenance, and that He is capable of providing it without any pre-conditions.<sup>180</sup>

This principle has a very important impact upon the behaviour of any individual who believes in it, namely an encouragement towards doing good and feeling satisfied with what he or she receives in the worldly life.

*He that works evil will not be requited but by the like thereof: And he that works a righteous deed - whether man or woman - and is a believer - such will enter the garden [of bliss]: therein will they have abundance without measure.<sup>181</sup>*

179 *ibid.*, p.69-70.

180 *ibid.*, 1990, p.73.

181 Qur'an 40:40.



### Reciprocal Need, Ostentation "Tafākḥur" and the Desire for Embellishment "Zīna"

The Qur'ān has described three important instances of personal emotion: reciprocal need, ostentation and the desire for embellishment. The first of these is mentioned as follows:

*... it is We who portion out between them their livelihood in the life of this world; and We raise some of them above others in rank, so that some may command work from others ...*<sup>182</sup>

It is in the diversity of individuals, not in their similarities, that societies are bound together. When one person possesses what another has been denied, and vice versa, then exchange and trade become necessary in order for both individuals to benefit from their possessions. People become mutually dependent, bound together in a situation of reciprocal need, and what is true of individuals is also true of human societies. Allah (s.w.t.) has distributed sustenance among individuals and among societies in such a way as to make exchange unavoidable.

The second instance of personal emotion is the desire for ostentation "tafākḥur", commonly known as "showing off":

*Know ye (all) that the life of this world is but play and pastime, adornment and mutual boasting and multiplying (in rivalry) among yourselves, riches and children.*<sup>183</sup>

This verse informs us about an emotion which encourages us to do more and be better than others.

The third emotion is that which attracts us to different aspects of life. This is "embellishment" and it has two forms. One attaches the human being to the material things of life in a specific order, described in the Qur'ān as follows:

*Fair in the eyes of people is the love of things they covet: women and sons; heaped-up boards of gold and silver; horses branded (for blood and excellence); and (wealth of) cattle and well-tilled land. Such are the possessions of this world's life ...*<sup>184</sup>

The other aspect of embellishment is the emotion which stimulates the

human being to seek something beyond the satisfaction of base needs alone:

*That which is on earth we have made but as a glittering show for it.*<sup>185</sup>

When these two forms of embellishment interact together, the result is the external appreciation of "glitter" and the internal satisfaction derived from fulfilling need, want or desire. Often, the personal emotion of embellishment differs in proportion from individual to individual, so that each of us values things differently. People express these differences as "personal taste". The diversity of personal taste, and the need of each individual to satisfy and express his own tastes, drives the exchange and trade discussed in our earlier review of mutual need. It is also the engine that drives human beings, uniquely among Allah's Creation, towards the development of ever wider, deeper, more complex and progressive societies.

### Reflections

Human beings have a dimension beyond their mere physical mass. This extra dimension consists of a dynamic inner centre where a spectrum of emotions provide the motivating agent or catalyst that makes human behaviour complex and progressive.<sup>186</sup> The balance between intellectual capacity and the power of this inner emotional centre is the driving force behind every individual decision and the way in which we interact with one another. This "emotio-intellectual" sense is a metaphysical one and it anchors human behaviour in both emotion and intellect. Rational behaviour, on the other hand, is based on intellect alone. This framework of understanding helps to explain some forms of human behaviour which cannot be explained on the base of rationality alone. For example, some people purchase a packet of cigarettes despite warning labels which tell them that "Smoking Kills". This type of behaviour can only be explained in terms of emotio-intellectual human behaviour.

<sup>182</sup> Qur'ān 43:32.

<sup>183</sup> Qur'ān 57:20.

<sup>184</sup> Qur'ān 3:14.

<sup>185</sup> Qur'ān 18:7.

<sup>186</sup> By "progressive", I mean "always seeking to develop".

## 2.6 Principle 5: Unity of Subject Matters

Islam as a subject is commonly divided into “‘aḳīdah”, meaning “articles of faith” or “belief”, and “sharī‘ah” meaning “Islamic law”. Although each of these branches comprises a huge subject in itself, each is still only one half of a dichotomy that cannot be fully understood without an equal understanding of the other. Furthermore, there can be no contradiction between the two branches. The same principles apply to any Islamic topic, whether it falls within ‘aḳīdah or sharī‘ah. Each could be considered as a branch having many sub-branches, but each is a fraction of the same single unit, and should coincide with all other topics in both branches, without contradiction or controversy.

As a result, some Islamic topics cannot be understood unless related to others. For example, the issue of polygamy may in itself be controversial for some, but once placed within the context of the marriage agreement and its conditions, the punishment for fornication, and so on, polygamy can be more easily understood.

### ‘Aḳīdah: Islamic Faith

Islamic belief is based on the existence of one God, Allah (s.w.t.). There is no God but He, and the Prophet Muhammad (s.a.w.) is His final Messenger. Within this message is a complete explanation of life, as simply as any human being can understand, and as profoundly as any human intellect can attain to, without contradicting fair logic or scientific fact. The only Islamic authority is the Qur’ān and the Prophet Mohammed’s teachings. There is no other authority because there is no need for one, given that Allah (s.w.t.) has informed us of everything we need to know in the Qur’ān:

*Nothing have We omitted from the Book ...*<sup>187</sup>

Likewise, it is an essential element of Islamic belief that the Prophet Muhammad (s.a.w.) has completed his mission perfectly:

*This day have I perfected your religion for you, completed My favour upon you and have chosen for you Islam as your religion.*<sup>188</sup>

187 Qur’ān 6:38.

188 Qur’ān 5:3.

Important too is the fact that no human needs an intermediary between himself and Allah (s.w.t.):

*When My servants ask thee concerning Me, I am indeed close (to them): I respond to the prayer of every suppliant when he calleth on Me: Let them also, with a will, listen to My call, and believe in Me: that they may walk in the right way.*<sup>189</sup>

*It was We Who created man, and We know what suggestions his soul makes to him: for We are nearer to him than (his) jugular vein.*<sup>190</sup>

### Sharī‘ah: Islamic Law

Islamic laws are Divine laws. Their purpose is to organise human activities in such a manner as to accomplish the purpose of human existence as portrayed in ‘aḳīdah. The divinity of these laws is exemplified in the ability of sharī‘ah<sup>191</sup> to achieve all of the objectives of human activity without producing contradiction within the body of its laws, regardless of time or place, and with no negative effect. This guarantee is the challenge posed by sharī‘ah to any human law, and is the main proof of its divinity.

189 Qur’ān 2:186.

190 Qur’ān 50:16.

191 See also al-‘Alim, 1994; Ramadan, 1970; and Izzi Dien, 2004.



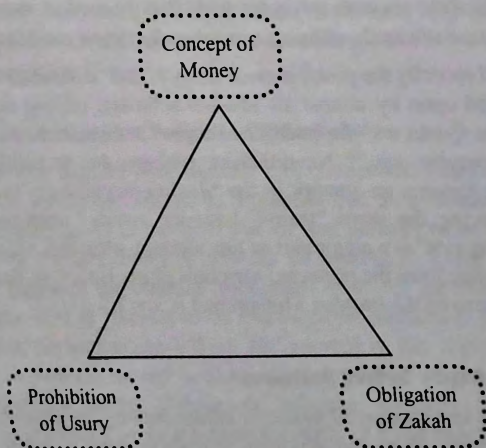
## **Part Two**

# **The Islamic Monetary Triangle**

### 3 USURY

#### 3.1 Usury and the Islamic Monetary Triangle

The monetary system in Islam can be shown as a triangle in which the apex represents the concept of money and the other two angles represent the prohibition of usury and the obligation of zakāh. The Islamic rules of market regulation and contractual conditions for financial and commercial transactions all work to keep this monetary triangle in balance.<sup>192</sup> This section discusses these three points of the Islamic monetary triangle, detailing their definition and their operation, and showing how they work together within the general framework of shari'ah to maintain justice and stability in the Islamic economy.



#### 3.2 Usury and Semantics

In the Western world, the word "usury" has been deliberately replaced by the word "interest" in order to escape the stigma and condemnation

<sup>192</sup> See the assumptions underlying Transaction Map Theory in Chapter 6.



that was once attached to it. Noonan points out that it was the scholar Hispanus in Rome who in around 1220CE introduced the idea that some charges for a loan of money might be justified as a penalty for late repayment of an otherwise usury-free loan. The period between the date on which the loan should have been repaid, and the date on which it actually was repaid, Hispanus termed "interesse", a Latin term literally meaning "that which is in between".<sup>193</sup>

Throughout history, usury has been strongly condemned by philosophers including Aristotle and Plato,<sup>194</sup> and has been prohibited by at least the last three revealed religions. However, Jews have tended to believe that usury should be prohibited only among themselves, while most modern-day Christians believe that the prohibition should apply only when the percentage rates for lending money are exorbitant, and that a moderate percentage should be allowed. In both the Jewish and Christian worlds today, there are common agreements that the modern economy would not function efficiently without a usury-based monetary and financial system.<sup>195</sup>

Until recently the prohibition of usury ("ribā" in Arabic) was commonly agreed upon by almost all Muslim scholars, relying on the authority of the Qurān and the ḥadīth of Prophet Mohammed (s.a.w.) in a clear and precise way.<sup>196</sup> Nevertheless, perhaps due to political pressures, there remains an attempt in the Muslim world today to justify usury. Replacing the word "usury" with the words "mark-up" or "profit-sharing rate" is a major part of this attempt, although it faces a concrete challenge from the protected scripture of the Holy Qur'ān and from the traditions of the Prophet Muhammad (s.a.w.).

### 3.3 Usury before Judaism

It is not known exactly where in human history the idea of prohibiting usury comes from, but it is easy to observe such a prohibition before the Pentateuch.

193 Noonan, 1957.

194 Shehata, 1998.

195 Buckley, 2000.

196 Al-Ashmāwi, 1988, p. 89.

### Usury in Hinduism and Buddhism

One of the oldest records of the usury prohibition is to be found in religious manuscripts deriving from the Vedic text of ancient India (2000-1400 BCE) in which the usurer ("kusidin") is mentioned several times. This is interpreted as any lender at interest. More frequent and detailed references to interest payments are to be found in the later Sutra texts (700-100 BCE). For example Vasishtha, a well known Hindu law maker of that time, made a special law which forbade the higher casts of Brahmins (priests) and Kshatriyas (warriors) from practicing usury. The Buddhist Jatakas (600-400 BCE) make several demeaning references to usury.<sup>197</sup>

*In India, some of the social classes were allowed to make ribā transactions while others were forbidden. If somebody borrowed from al-Barahima (priests) or al-Kastaria classes (warriors), they could neither take nor give ribā. However, if someone from the lower classes borrowed money, they were expected to pay interest. In that sense, religious men and warriors were forbidden to deal with interest but farmers and dealers were allowed to do so in their transactions.*<sup>198</sup>

### Usury in Ancient Western Political Philosophy

Among the ancient Western philosophers who condemned usury were Plato, Aristotle, Seneca and Plutarch. Evidence that these sentiments found their manifestation in the civil law of that period can be seen, for example, in the Lex Genucia reforms of republican Rome (340 BCE) which outlawed the practice altogether. Aristotle, for example, considered any kind of interest to be unacceptable because it creates money without corresponding labour. He asserted in this regard that money cannot produce money because the natural way of producing money is through things themselves, whether naturally through agriculture or extracting materials from the earth, or artificially through transforming natural materials, or by transporting things from one place to another or storing them for a certain period of time. In that sense, there is no way for money to produce money because money is a means of measuring the value of things and a measure cannot be a commodity.

197 Visser and McIntosh, 1998.

198 Mansour, 1987, p. 9-10.



Aristotle divided the ways in which commerce can produce money into the following three categories: i) "natural transactions" being the exchange of basic needs with another person, such as the exchange of food with clothes, which has traditionally been known as the barter system; ii) "purchasing" which involves the exchange of some needed item for money, such as buying a dress with dinārs (this has been the normal method of transaction in most human civilizations for a very long time); iii) artificial transactions, which involve the use of money as a commodity that produces money, which Aristotle considered to be unacceptable usury. In *The Law*, Plato likewise forbade usurious transactions. Christian philosophers rejected the transaction on similar grounds because they disagreed with the idea of producing money out of money, for money could never be a subject for commerce. Rather, they believed it should merely be a tool for exchange and a measure of value.<sup>199</sup>

### 3.4 Usury in Judaism

Prophet Moses, peace be upon him, was leading his people away from an oppressive state in order to establish one of his own, although he had no land upon which to do this. His message was not only a spiritual one, but was supported also by a legal code. Among the prohibitions in this code was that of usury, of which Judaism in due course defined various forms: i) "conditioned usury" was the amount of interest agreed by both parties beforehand; ii) "hidden usury" was the non-contractual usury that took place when a borrower gave a lender a gift or a service free of charge after receiving the loan amount; and iii) the "usury of choice" was effected due to changes of transaction prices at a future time. Rabbinical scholars have given an example of this. If wheat was borrowed in January, and the price at the time was 50 piasters, and then returned in July when the price was 70 piasters, the lender has the option of taking the 70 piasters from the borrower instead of the amount of wheat.<sup>200</sup>

Susan Buckley refers to the main Jewish text regarding the subject of usury in *Teachings on Usury*.

199 Mansour, 1987, pp. 7-8.

200 Mansour, 1987, pp. 12-17.

*It is very significant that the teaching with regard to usury is cited in the Pentateuchal books of Exodus, Leviticus, Deuteronomy, as this constitutes the religious law by which the Jews ordered the moral life of their society, and is representative of God's covenant between himself and his 'chosen people.'*<sup>201</sup>

The problem with the English language texts of the above referenced books is that they appear in more than one authorised version, and the words in these versions vary in ways which can completely change the meaning. For example, the wording of the King James Version of 1611 is:

*If thou lend money to any of my people that is poor by thee, thou shalt not be to him as a usurer, neither shalt thou lay upon him usury.*<sup>202</sup>

*And if thy brother be waxen poor, and fallen in decay with thee ... Take thou no usury of him, or increase: but fear thy God; that thy brother may live with thee. Thou shalt not give him thy money upon usury, nor lend him thy victuals for increase.*<sup>203</sup>

*Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury: Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury: that the Lord thy God may bless thee in all that thou settest thine hand to in the land whither thou goest to possess it.*<sup>204</sup>

According to the New Revised Standard Version, the same verses read as follows:

*If you lend money to my people, to the poor among you, you shall not deal with them as a creditor; you shall not exact interest from them.*<sup>205</sup>

*If any of your kin fall into difficulty and become dependent on you, (you shall support them; they shall live with you as though resident aliens.) Do not take interest in advance or otherwise make a profit from them, but fear your God: let them live with you. You shall not lend them your money at interest taken in advance, or provide them food at a profit.*<sup>206</sup>

*You shall not charge interest on loans to another Israelite, interest on money, interest*

201 Buckley, 2000, p. 2.

202 Exodus 22:25.

203 Leviticus 25:35-37.

204 Deuteronomy 23:19-20.

205 Exodus 22:25.

206 Leviticus 25:35-37.



on professions, interest on anything that is lent. On loans to a foreigner you may charge interest, so that the Lord your God may bless you in all your undertakings in the land that you are about to enter and possess.<sup>207</sup>

From the above two authorized versions, it is easy to spot the differences in wording, in particular, the word 'usury' which has been replaced by 'interest' or 'profit' and the word 'thy brother' which has been replaced by 'your kin'. It should also be noted that the laws recorded in Exodus and Leviticus are brought together in Deuteronomy as a covenant code between God and His 'chosen people'. These linguistic variations have brought different exegesis and interpretation. One of the most common interpretations of the Deuteronomy exemption is that Jews are permitted to take usury from non-Jews. Benjamin Nelson explained this exemption as a:

*Two-tier economic system: an interior, exclusive, clan ethic with the exclusion of seeking gain in respect of the 'brother', and an external system with no ethical restriction on the pursuit of gain when applied to the 'other'.<sup>208</sup>*

Whether this is the true position of the prohibition of usury in Judaism or not, and whether the justification for this position is accepted or not, it is ultimately a position of belief rather than an intellectual idea.

Criticism of usury in Judaism has its roots in several Biblical passages in which the taking of interest is either forbidden, discouraged or scomed.<sup>209</sup> One Hebrew word for interest is "neshekh" literally meaning "a bite". In the text of Leviticus, the less aggressive words "tarbit" or "marbit" (which have the meaning of "increase") are used to refer to the charge made by a creditor.<sup>210</sup>

Judaic teachings regarding the lending of money are based in part upon the biblical passage in Exodus. The verses read as follows:

*24. When you lend money to any of my people, to the poor among you, you shall not be to him as a creditor, nor shall you impose upon him any interest. 25. If you take*

207 Deuteronomy 23:19-20.

208 Buckley, 2000, p. 16.

209 Abu Zahra, 1995, p. 12.

210 Zarlena. 2002. See also Buckley, 2000; Mansour, 1987; Reda, 1986; and Mo'nes, 1986.

*your neighbour's (night) garment as a pledge (collateral), you shall return it to him by nightfall. 26. For that is his only covering; it is his garment for his skin. In what shall he sleep? And it shall come to pass, that if he cries out unto Me, I will hear it, for I am compassionate.<sup>211</sup>*

The word which sets the context for the entire legal discussion is "ami", meaning "my people", which is found in verse 24. Allah (s.w.t.) specifically regards those in need of a loan as being His special people, to whom He is very close, and must conduct Himself accordingly. The phrase "you shall not be to him as a creditor" is interpreted to mean that the lender is prohibited from reminding the borrower of his dependent status in any way.

According to rabbinical interpretation, not only is the lender prohibited from charging interest, but the borrower is also prohibited from offering to pay interest. The Torah rejects the entire notion of a loan as a transaction that brings benefit to the lender. According to the Halacha (Rabbinical Law), a person who either lends or voluntarily borrows on interest is disqualified from being a witness in court.

The rabbis considerably expanded the category of "interest" by definition. Interest could include consideration aside from cash. For example it is prohibited to allow one's creditor to utilise one's home or workplace rent free. It is even prohibited for the debtor to offer a space to his creditor at a discounted rent. These are understood to be gestures through which the creditor realises benefit from the loan he has extended, and are therefore "interest" by rabbinical definition.

The question as to the permissibility of lending with interest to people who are not part of the Jewish community is debated in the Talmud. The Talmud's discussion is inconclusive, and the post-Talmudic rabbis take up the question. Moses Maimonides, in his Jewish legal code, rules that it is permissible for a Jew to charge interest of a non-Jew only when necessary to provide himself with a basic living.

There are several reasons why usury was prohibited among Jews and allowed in transactions with non-Jews. Some rabbis stated that the earth has been created by God and He has handed it down to Abraham (s.a.w.) and because the people of Israel are thought to be the chosen people of

211 Exodus 22:24-26.

God, then the whole earth is meant to be for them. In that sense, the people of Israel are supposed to obtain all that they need from the land, and the rich people of Israel should help the poor and never ask them for interest. But this rule is not applicable to non-Jews, who may therefore pay interest in their transactions with Jews.<sup>212</sup>

In Babylonia, when the prohibition of interest came to be seen as incompatible with the commercial needs of the community, a standard contract form was produced under which interest could be charged. It was known as Hetter Iskah, meaning the permission to form a partnership, and it became so widely accepted that even many centuries later interest-based transactions could be carried out in accordance with Jewish Law by simply adding a reference to the Hetter Iskah in the contract note.<sup>213</sup>

### 3.5 Usury in Christianity

In *Your Money or Your Life*, Jacques Le Goff seems to differentiate between scriptural authority and Church authority.<sup>214</sup> He explains that Urban III's Decretal Consilium of 1187, which was incorporated into canon law, is the best expression of the Church's attitude toward usury during that century, the key points being that: i) usury is everything that is asked in exchange for a loan, beyond the value of the loan itself; ii) earning money through usury is a sin forbidden by both the Old and the New Testament; iii) merely hoping to receive additional property, beyond the property itself, is a sin; iv) total restitution of gain acquired through usury must be made to the true owner; v) asking a higher price for a sale on credit is an implicit act of usury.

Since the Sixteenth Century, the Christian concept of usury has changed. For some, this change is due to the drastic transformation in modern life, while for others it refers to the change in the nature of money and

212 Mansour, 1987, pp. 20-21.

213 Encyclopaedia Judaica, 1971. See also the discussion of this issue at [http://www.alastairmcintosh.com/articles/1998\\_usury.htm](http://www.alastairmcintosh.com/articles/1998_usury.htm).

214 Le Goff, 1998.

loans.<sup>215</sup> In *Vix Pervenit*, the 1745 Encyclical<sup>216</sup> of Pope Benedict XIV, the first Pope to write encyclicals, we find:

*We do not deny that at times together with the loan contract certain other titles – which are not at all intrinsic to the contract – may run parallel with it for these other titles, entirely just and legitimate reasons arise to demand something over and above the amount due on the contract. Nor is it denied that it is very often possible for someone, by means of contracts differing entirely from loans, to spend and invest money legitimately either to provide oneself with an annual income or to engage in legitimate trade and businesses. From these types of contracts honest gain may be made.*<sup>217</sup>

During the sixteenth century, the separation of civil law from canon law and Divine legislation opened the door to the practice of usury. In the German-speaking lands, interest at five per cent was permitted under the *contractum trinius*, a combination of three transactions that were individually viewed as permissible by the Church but which, when combined, produced the effect of a usurious loan. In France, interest on loans was forbidden until the decree of 2nd and 3rd October 1789.

The Economist<sup>218</sup> confirms the almost forgotten existence of old laws on usury:

*Bad news for Portia. Italy's usury law looks more likely to put bona fide bankers behind bars than to stop modern-day shylocks taking advantage of gullible borrowers. On November 18th the country's highest court of appeal ruled that the fixed rate of interest attached to a bank mortgage contracted in 1993 was usurious according to the legislation enacted in March 1995 ... Interest rates are deemed to be usurious when they are more than 50% higher than the average previous 3 months.*

This formal change of position in Christianity is not unique to usury, neither is it due to the nature of the subject. Contraception and birth control, marriage, adultery, fornication and homosexuality have undergone similar treatment. The changes in position on these issues and others in Christian teaching arise from complex controversies

215 Vermeersch, 1910.

216 An Encyclical is a Papal document addressing matters related to the general welfare of the Church sent by the Pope to the bishops. It is used especially in modern times to express the mind of the Pope to the people.

217 Visser and McIntosh, *op. cit.*, 1998.

218 Economist, 25 November 2000, "Italian Usury Laws: Mercy Strain'd".



surrounding such matters as the divinity of the Church, the authority of its hierarchy, and the authenticity of the Biblical scriptures themselves.<sup>219</sup>

Highlighting the position of usury in Christianity Susan Buckley writes:

*Christians, however, were left in a more ambiguous position. The teaching in the New Testament scriptures on usurious lending is couched in more idealistic and universalistic terms in the light of loving not only one's friends, but equally one's enemy and neighbour. The problem that the Christians in the early Church faced (and still face today) was the fact that there was no specific guidance as to how they were to regard the taking of interest in the New Testament teaching, although, as has been seen, there was an oblique reference to it in Luke 6. The second problem was how to come to terms with what appeared to them a 'Deuteronomic double-standard' which allowed Jews to charge interest to the 'nokri' but not to the 'ger.' According to Christ's teaching loans were to be made in a spirit of love for one's enemy, as well as one's friend, with the expectation of nothing in return. In first century simple Christian fraternal communities, with a pervasive atmosphere of kindly charity, the hard bargainer for gain was an unwelcome intruder – the personification of the spirit of the alien world without.<sup>220</sup>*

In that sense, Christianity has prohibited the usury transaction in general, whether within or with others. This prohibition continued until the time of the Reformist movement and the split of the Roman Church. At that point, Martin Luther asserted the prohibition of usury in all its forms, of which one was the buying up of available products for subsequent sale at an inflated price. Another example is to sell products at a very cheap price which forces other dealers to reduce their prices and thus lose money. Luther includes in prohibited transactions instances where, during wartime, dealers agree to spread lies in order to make people sell whatever they have so that the dealers can later sell them back at higher prices. Luther considered it to be usury when an individual invests, for example, 1000 pieces of gold in a company in return for a promised repayment of 100 or 200 pieces each year, whether the company itself makes a profit or loss with the investment. He also considers that the act of lying to convince a buyer that a certain product is worth more than its price is usury.

Luther thereby cast a wide net in his definitions and few others in the

219 Coulter, 1999.

220 Buckley, 2000, p. 59.

Christian tradition have since gone so far. It seems that Luther saw his role as one of social reformer and religious preacher, prohibiting forbidden transactions in order to protect the innocent. Despite the prohibitions of usury contained within the Christian scriptures, and the pronouncements of those such as Luther, usury has over the centuries spread throughout Europe and from there to the whole world with the full knowledge of the Church. It is worth reflecting briefly on what the reasons for this might be. Did a materialistic spirit spread over the Christian world in matters of finance and trade? Did it become established that religion was a matter to be applied within a church but not outside it? Or was there merely a change of interpretation of principle?

Whatever the case may be, Christian economists in due course approved the theory of interest and asserted that it does not contradict the moral foundations of religion so long as it is not exploitative. They came to see usury as a mere fee for the use of money, and with the increasing political and economic dominance of the Western powers, the world as a whole increasingly accepted usury as the basis of its financial system.

### 3.6 Usury in Islam

There has been a long consensus among Muslim scholars on the prohibition of usury. One of the most important fatāwa<sup>221</sup> on the topic is the one issued in 1965 by the Centre of Islamic Studies in Cairo. The Centre included 150 scholars at the time. In its second conference in May of that year, the Centre issued the following fatwā:

*Interest on all sorts of loans is forbidden ribā. There is no difference here between a consumerist loan and a productive loan. Whether it is much or little, ribā is forbidden and cannot be allowed on the grounds of necessity.<sup>222</sup>*

Although there is a consensus in the Islamic literature on the prohibition of usury, there is still a controversy in the Muslim world today about what usury is and what it is not, and whether a usury-free economy can really co-exist with an international usury-based monetary system.

221 Fatāwa is the plural of fatwā, meaning "religious judgement".

222 Al-Ashqar, 1984, p. 75 and Al-Ashmāwi, 1988, p. 89. See also Mansour, 1987, pp. 114-133 on the different fatāwa regarding the prohibition of usury.



Adding to this controversy is the fact that today every Muslim country adopts a usury-based monetary and financial system. In order to understand the Islamic view of usury we need to start with the meaning of the word.

### What is Usury?

The word "usury" is hardly used in the modern English language today, and has few derivatives. The Arabic word for it is "ribā". Ribā has a full range of derivatives, and has three dimensions of meaning.<sup>223</sup> The first of these is a linguistic one, namely "increment":

*.... the earth barren and lifeless, but when We pour down rain on it, it is stirred (to life), it swells,<sup>224</sup> and it puts forth every kind of beautiful growth (in pairs).<sup>225</sup>*

*And among His signs is this: thou seest the earth humble; but when We send down rain to it, it is stirred to life and yields increase. Truly He who gives life to the (dead) earth can surely give life to (men) who are dead. For He has power over all things.<sup>226</sup>*

The second dimension is technical. Ribā describes certain transactions in which immorality and an anti-Divine nature was recognised long before the coming of Mohammed (s.a.w.). For example, when the people of Makkah collected funds for rebuilding the Holy Ka'bah, one of the restrictions regarding the collection was that money obtained from usury was not to be used. The word ribā is used in general terms for all transactions involving the taking or paying of a fixed sum of money over and above the original amount, regardless of the purpose of the funding, the nature of the entity, or the individuals involved in the agreement.

The scholar, Ahmed bin al-Razy al-Jassas<sup>227</sup> describes usury as follows:

223 Mansour, 1987. See also Mo'nis, 1986; Rida, 1986; Fu'ad, 1986; Al-Ashmawi, 1988; Abu Shahba, 1309 AH; Harak, 1988; A'tar, 1988; Al-Ashkar, 1984 and al-Mawdudi (undated) for different perspectives.

224 The words "it swells" are used as a translation of the Arabic word "rabat" which is a derivative of the verb "raba".

225 Qur'an 22:5.

226 Qur'an 41:39.

227 Imam Al-Jassas is considered to be one of the main scholars of the Muslim Ummah, especially among the scholars of the Hanafia. During his lifetime he was head of the Hanafi school in Baghdad. Among his books are *Ahkām al-*

*It is well known that pre-Islamic usury was nothing more than a loan for which repayment was delayed and an increase was expected. Hence the increase was added in return for the delay in repayment. Then Allah made it unlawful.<sup>228</sup>*

Imam al-Razi explains it differently:

*Loan-related usury was the most famous type in pre-Islamic times. A man would loan his money to another on condition that the borrower pay a certain amount of money each month up to a certain date, while the original loan remained as it was. When the pre-determined date arrived the lender would demand the return of his loan. If the borrower failed to repay an additional sum would then be demanded.<sup>229</sup>*

The third dimension is the meaning of usury as a whole system. Here it describes whether an economy is run as a usury-based system or otherwise. Qutb contrasts a financial system based on ribā with one based on zakāh and argues that Allah (s.w.t.) wants humanity to adopt the latter. He sees the usury-based system as one that leads to the destruction of the social and economic structures of society, something that Allah (s.w.t.) has of course prohibited.<sup>230</sup> The Qur'an describes the non-usury system as a lawful trade-based system, and contrasts it with the prohibited usury-based system.<sup>231</sup>

*Those who devour usury will not stand except as stands one whom the Satan by his touch hath driven to madness. That is because they say: 'Trade is like usury', but Allah hath permitted trade and forbidden usury. Those who after receiving admonition from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (the offence) are Companions of the Fire: they will abide therein (for ever).<sup>232</sup>*

### Usury after Revelation

Some scholars have tried to distinguish between two kinds of ribā, the Qur'anic type of ribā and the one mentioned in the sunnah of the Prophet (s.a.w.). In my view, the word ribā in the Qur'an would

*Qur'an and Usūl al-Fiqh.*

228 Al-Salūs, 1986.

229 Omar, *op. cit.*, 1985.

230 Qutb, *op. cit.*, 1982.

231 See Al-Tabari, 1988, Vol. 3, 104 for an extensive exegesis.

232 Qur'an 2:275.



include all types of ribā transaction known to the Arabs, for they well understood the transaction before revelation came to them, as well as all other transactions thereafter denounced by the Prophet (s.a.w.) as being forms of ribā.<sup>233</sup> Abu Sa'īd al-Khudri narrated in this regard that:

*Bilal came to the Prophet (s.a.w.) with some good quality dates. The Prophet (s.a.w.) asked Bilal: 'Where have you got these dates from?' Bilal replied: 'I had some dates of poor quality. I traded those at two measures for one of these.' The Prophet, (s.a.w.) said: 'Woe ... that is downright usury; downright usury. Do not do that. If you want to trade then trade your dates for some other type of merchandise. Then trade the latter for whatever you wish.'*<sup>234</sup>

This ḥadīth changed the traditional understanding of usury, and it also added to the scope of usurious transactions known in Arabia. In addition to dates, when bartered in the manner described above, transactions involving wheat, barley, salt, gold and silver were also regarded as being usurious. So there are six items that have usurious conditions. The following ḥadīth has described these six items and the conditions which should apply when they are traded:

*Gold is to be traded for gold, like for like; silver for silver, like for like; dates for dates, like for like; wheat for wheat, like for like; salt for salt, like for like; barley for barley, like for like. He who gives more [under contractual conditions], or who asks for more is dealing in usury. Trade gold for silver in whatever way you will as different quantities hand-for-hand [on the spot]; trade wheat for dates in whatever way you wish, hand-for-hand.*<sup>235</sup>

All Islamic scholars agree that the six items mentioned in the above ḥadīth are subject to the usury prohibition (in other words, that they are "ribawi" items). The condition that should be applied when trading one of the six items against its own kind is that the quantity, weight or number should be exactly the same and the exchange must take place immediately. However, when a trade takes place between different kinds among these items, then quantities, weight or number may differ but exchange must take place immediately.

So, while one condition deals with the quantities (which could be called

233 Rida, 1986, p. 31.

234 Ṣaḥīḥ Muslim. Book of al-Musaaqaah.

235 This ḥadīth is narrated by several scholars.

the equal quantities condition) the other condition deals with the time of the transaction (this could be called the transaction time condition). Although all scholars have agreed on the six items and the conditions applying to their trade, there is still a fundamental debate about whether to restrict the usurious conditions to these six items (since these are the only items mentioned in the ḥadīth) or whether to expand their scope by analogy ("qiyas") to whatever other items share the same effective cause ("illa") as these six items.

While this debate is on-going, even today, there is common agreement to divide the six items into two groups. The first group comprises gold and silver, and the second group comprises wheat, barley, dates, and salt. The debate concerning the second group has not been consistent enough to produce a common reason for enforcing the Islamic ruling on usury. Neither has it defined the common 'illa, nor the individual 'illa for each item, which would have enabled scholars to add other items by means of analogy to this list of four.<sup>236</sup>

This missing link lends greater validity to the opinion that the usurious condition of these four items should remain exclusive to them. The fact that the barter trade in these four items is almost non-existent in today's market place, adds weight to the argument for exclusivity. In these circumstances, it may be wise to reserve judgement until something unique is discovered about the four items which sheds new light on the debate.

In contrast, the debate on the two items in the first group, gold and silver<sup>237</sup>, is completely different. This is because gold and silver have played a major role throughout history as the main currency circulating in the market place, and still exert their monetary influence today. In the ḥadīth, gold and silver are mentioned both as bullion and as currency. It was obvious in the past, and still is today, that the usurious condition of gold and silver should be related to their particular usage as currency.

236 Al-Nabhani, 1990, p. 253. If an 'illa is identified, then any item which shares it can be added to the list. For example, if it was agreed that the 'illa is that of "being an edible crop", then grapes could be included in the list of items subject to the usury prohibition.

237 For more on the subject of gold and silver see Chapter 4.



Most scholars agree that gold and silver share the “illa” of “ath-thamaniyya”, translated here as “priceness”,<sup>238</sup> which is the degree to which a particular item is accepted as a standard for exchange value in a market place. It is this feature of priceness, commonly seen throughout history, which makes gold and silver subject to the usury prohibition in Islam.

### 3.7 Prohibition of Usury

All Islamic rules relate to what people should and should not do. According to the way people follow these rules, they are either rewarded or punished, both in this life and the hereafter. These rewards and punishments are proportionate to the significance of the corresponding actions, and reflect the outcome of those actions including their wider effect on society as a whole. The punishment for usury is a collective one, namely war from Allah (s.w.t.) and his Messenger. This indicates that the whole of a society will be held responsible for the practice of usury. In Islam there is no punishment more severe than a war from God and his Messenger and the nature and severity of this punishment naturally reflects the seriousness of the underlying crime.

The way Islam deals with the phenomenon of usury provides clear evidence of the need for Divine rules and protected scripture, and also a strong indication that humans in general are not qualified to legislate for themselves but are in need of Divine legislation. The general practice of modern monetary transactions all over the world is usurious and the wisdom behind the prohibition of usury has been lost to the common conventional intellect. Vogel and Hayes express this idea in *Islamic Law and Finance* as follows:

*...some outside observers have been quick to dismiss the concept of Islamic finance as so much window dressing, regarding Islam's prohibition on interest as akin to proclaiming that the laws of gravity are suspended.<sup>239</sup>*

<sup>238</sup> I have found the easiest way to express the meaning of *ath-thamaniyya* is to use a derivative of the word “price”. When I asked several people what they understood from the word “priceness”, the answer was in accordance with my expectations.

<sup>239</sup> Vogel and Hayes 2006, p. 202.

For the Muslims, the usury prohibition emanates from the same source which has created gravity to balance human life. As the source is the same, contradiction between these two things cannot exist.

#### *Prohibition of Usury in the Qur'ān*

The prohibition of usury in the Qur'ān came in four stages. At each stage the practice of usury was condemned according to the context of the verse.<sup>240</sup>

##### The First Stage

It is said that Qur'ān 30:39 (Sūrat ar-Rūm) was the first to refer to the subject of usury. This is an early verse of the Makkan period which is known as the period of revelation related to issues dealing with faith rather than with the organisation of social and economic activities:

*That which you (plural) give in usury for increase through the property of (other) people will have no increase with Allah: But that which you give for charity, seeking the Countenance of Allah (will increase): it is these who will get a recompense multiplied.<sup>241</sup>*

Although this is only one verse, and the first verse dealing with usury, it addresses the entire subject of usury, covering the whole economy rather than a single transaction.<sup>242</sup> It is also aimed at those to who say they “give usury” or those who claim that “given usury” stimulates growth. These are the borrowers, representing the demand side of such transactions. The verse changes the perception that the borrower who pays interest is the one oppressed by the system, and instead casts him as a defender of the system. It can be easily understood in terms of today's usurious monetary economy where the practice of leverage<sup>243</sup> is a common mechanism by which borrowers are seen to benefit from the system.

This very practice has been referred to by Muhammad Saleem in *Islamic Banking: A \$300 Billion Deception*. Saleem argues that the

<sup>240</sup> Buckley, 2000, p. 189. See also Mo'nis, 1986; Reda, 1986; and Mansour, 1987.

<sup>241</sup> Qur'ān 30:39.

<sup>242</sup> See the Transaction Map Theory in Chapter 6.

<sup>243</sup> Here, funds are borrowed at a rate of interest that is below the rate of return generated on assets used in the borrower's business.



Qur'ānic text is relevant only to the era in which it was revealed<sup>244</sup> and he distinguishes between the ribā practised at the time of revelation and the ribā in modern financial systems. Then, on the topic of leverage, he writes:

*Consequently, because of its excellent credit ratings, reputation and standing in the market place, the borrower was calling the shots. To put it more bluntly, the borrower had more leverage than the banks, clearly a situation vastly different than that existing in 7th Century Arabia.*<sup>245</sup>

But this very quote demonstrates the Divine nature of the aforementioned Qur'ānic verse, since the activity it describes is more common in modern times than it was in the era when the Qur'ān was revealed. The verse in question not only refutes the borrowers' claim, but also describes charity as a real catalyst to growth, in particular zakāh (the wealth levy). It contrasts the two systems of usury and zakāh, and demonstrates that they cannot coexist in one economy.

When we look at the two verses immediately preceding and following Qur'ān 30:39, we see the context for their proper understanding. Qur'ān 30:37 establishes that provision is decided by Allah (s.w.t.), Qur'ān 30:38 encourages zakāh, and Qur'ān 30:40 confirms and reminds the reader of the Authority of Allah (s.w.t.), the Creator and Sustainer. Qur'ān 30:41 then describes how corruption in human societies causes suffering, in order to emphasise the importance of returning to the Divine rules.

### The Second Stage

*For the iniquity of the Jews We made unlawful for them certain (foods) good and wholesome which had been lawful for them; And that they hindered many from Allah's Way; That they took usury, though they were forbidden; And that they devoured men's wealth wrongfully; We have prepared for those among them who reject faith a grievous chastisement.*<sup>246</sup>

These two verses constitute a part of the story of the Jews. A significant wrongdoing on their part is that they took usury despite it being strictly forbidden in their scripture. Unlike the verse in the first stage where

244 Saleem 2005, p. 68.

245 Saleem 2005, p. 14.

246 Qur'ān 4:160-161.

usury was expressed by the word "give", in this verse, where usury is related to the actions of the Jews, the word "took" is used instead. This is clearly indicative of the position of the Jews in relation to the system of usury, and refutes their claim that they are allowed to take usury from non-Jews.

### The Third Stage

The following verse constitutes a direct order to believers to refrain from usury, and warns them to fear Allah (s.w.t.) as a condition for prosperity:

*O ye who believe! Devour not usury, doubled and multiplied,<sup>247</sup> But fear Allah; that ye may (really) prosper. And fear the fire, which is prepared for those reject faith: and obey Allah and the Messenger that ye may obtain mercy.*<sup>248</sup>

The imperative behind this order clearly required a much fuller exposition of the topic by the Prophet (s.a.w.), especially in regard to those transactions newly declared by him as usurious of which the people were not previously aware. This is an additional confirmation of the legislative authority of the Prophet Muhammad (s.a.w.) to be treated equally to the authority of the Holy Qur'ān.

The position of this verse within the sūrah describing the battle of Uhud, at which Muslims were given a taste of defeat for having disobeyed the Prophet's order (s.a.w.), acts to remind Muslims of the consequences of disobeying Allah and His Messenger. It should be understood that it is impossible to practice usury while obeying them.

### The Fourth Stage

The fourth and last verses related to usury are found in Sūrat al-Baqarah. It is believed that these verses were the last verses of the Holy Qur'ān to be revealed. They draw the most revealing picture about usury, showing how evil it is, thus giving the strongest possible warning against dealing in it:

*Those who devour usury will not stand except as stands one whom the Satan by his*

247 "Doubled and multiplied" is a description of the system of usury, not a defining condition for it. See Qutb, 2006.

248 Qur'ān 3:130-132.

touch hath driven to madness. This is because they say: Trade is like usury. But Allah hath permitted trade and forbidden usury. Those who after receiving admonition from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); But those who repeat (the offence) are Companions of the Fire: they will abide therein (forever). Allah will deprive usury of all blessing, but will give increase for deeds of charity: For He loveth not any ungrateful sinner. Those who believe, and do deeds of righteousness, and establish regular prayers and give zakāh, will have their reward with their Lord: On them shall be no fear, nor shall they grieve. O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do not, take notice of war from Allah and His Messenger: But if ye repent ye shall have your capital sums: deal not unjustly, and ye shall not be dealt with unjustly.<sup>249</sup>

This fourth and final stage is a long discourse starting from verse 267, addressed mainly to believers, exhorting them to spend for the sake of Allah (s.w.t.), confirming that sustenance is from Allah (s.w.t.) and that spending should be undertaken in the way He approves. The Holy Qur'ān warns to avoid obtaining sustenance in ways that He disapproves, in particular through usury. In this stage, Allah (s.w.t.) strongly refutes the most common statement that "trade is like usury" with the assertion that Allah (s.w.t.) made trade lawful and usury unlawful.<sup>250</sup> Throughout this entire exposition, Allah (s.w.t.) condemns usury in the strongest terms and threatens not only the usurer but the whole Muslim society ("ummah") with a punishment that no other crime in Islam incurs.

In the above discussion we can see that the word "usury" has been associated with "give", "take", "eat" and "devour". We also see a contrast between usury and trade (both are mentioned as systems rather than in the literal meaning of usury as "increment"). The direct call for prohibition is aimed at believers since belief and usury cannot co-exist in the same society. Usury and zakāh are contradictory, since the system of usury rewards the hoarding of money while zakāh discourages hoarding. Hence, both cannot be applied in one economy. Although it would appear that usury gives a nominal increment of quantity or number, and that zakāh produces a nominal decrease, Allah (s.w.t.) has promised that wealth will decrease through the practice of usury but increase through the application of zakāh.

249 Qur'ān 2:275-279.

250 See the discussion of Transaction Map Theory in Chapter 6 for the difference between trade and usury.

### Prohibition of Usury in the Sunnah

In addition to the ḥadīth in which the six usurious items are mentioned along with the conditions to be applied when exchanging them, there are other ḥadīth that confirm and elaborate the prohibition of usury and the punishment for those who violate it.

In relation to the prohibition of usury, the Prophet (s.a.w.) on one occasion mentioned the dinār and the dirham,<sup>251</sup> the gold and silver currencies of his time respectively. At other times the word "al-wariq"<sup>252</sup> is used to signify a coin of silver. After the Battle of Khaibar, it came to the Prophet's attention that a bracelet made of gold and a precious stone was to be sold. The Prophet (s.a.w.) ordered that the gold and the stone in the bracelet must first be separated, and the gold exchanged for gold, weight-for-weight in return for dinārs. This demonstrates the importance of applying the rules relating to transactions involving gold and silver, as distinct from those that apply to non-monetary items.<sup>253</sup>

Central to the practice of justice is that it should be applied equally and to everyone. When the Prophet (s.a.w.) annulled usury, he first did so in respect of his own uncle, thus setting an example for others to follow. This occurred in a speech that he made on the Day of Arafat<sup>254</sup> at the farewell pilgrimage:

*Indeed, all the usury of paganism is annulled. You have claim only to your capital sums. Deal not unjustly and you will not be dealt with unjustly. The first usury I annul is that of my uncle, al-Abass bin Abdul Muttalib.<sup>255</sup>*

Usurious transactions require at least two parties, a lender and a borrower. It is however possible that other participants will be involved. Hence, the Prophet (s.a.w.) cursed those who eat usury, those who pay it, those who write the related contracts, and those who act as witnesses thereto. In the ḥadīth we are informed that all of these are equal in the sin of usury, a warning which both signifies the severity of the sin and

251 Narrated by 'Uthmān ibn Affān and recorded in Ṣaḥīḥ Muslim.

252 "Al-wariq" is silver currency, not to be confused with "al-waraq" which can mean paper money.

253 See the Chapter on Ribā in Ṣaḥīḥ Muslim, Book of Business Transactions.

254 Narrated in Ṣaḥīḥ Muslim.

255 Ṣaḥīḥ Muslim, Book 15, No. 2950, 881.



acts as a deterrent for those who might wish to involve themselves in it. In an even starker report in al-Bukhari, the Prophet (s.a.w.) said:

*A dirham of usury eaten consciously by anyone is a worse sin than committing fornication thirty-six times.*<sup>256</sup>

The Prophet may have made this comparison to emphasise the wickedness of usury, and to instil in Muslims an even greater repugnance for it than that which applies to fornication. One might even draw a parallel between fornication, which attacks a basic building block of human society, namely the family unit, and usury which attacks the economic structure of society. Although the effect of usury on human structures is not as visible as the effect of fornication, it is immeasurably greater.

#### *The Exception*

Behind every law, either Divine or manmade, there lies an objective. Sometimes a particular rule or law may have a negative effect in a certain situation without achieving its intended objective, and in such situations a limited allowance may be given to break the rule or the law. This allowance does not prevent the achievement of the original objective, but eliminates negativity in the particular case of the exception. A proper exception reflects a good and deep understanding of the original law, and is an indicator of how good the law or rule is in itself.

In the case of the prohibition of usury in Islam there is only one exception which is known as the al-'arāyā transaction.<sup>257</sup> Although there is more than one explanation of the exception of al-'arāyā, the common outcome of all the ḥadīth relating to it confirms that it is a limited quantity which is less than five *awsāq*<sup>258</sup> of dried dates. These can be traded in exchange for an estimated equivalent of fresh dates from a forthcoming harvest. This exception to the requirement that dates be traded hand-to-hand is one that facilitates ease for farmers who may be in need of dates for eating while their own dates are yet to be harvested. But the importance of this exception from a legal perspective is that there is none other like

<sup>256</sup> Shamsu ad-Dīn, 2008.

<sup>257</sup> Reda, 1986, p. 10.

<sup>258</sup> *Al-wasaq* is sixty *sa'*, which is in turn a unit of measurement approximately equal to three and one-third litres.

it on the subject of usury including, most importantly, in the trading of gold and silver.

#### *The Alternative*

One serious fallacy is the supposed obligation to provide alternatives to any given practice as a condition for the refutation of that practice. Another fallacy is the claim that certain practices are a necessity to modern civilisation. Both are intellectual deceptions. The intellectual process should be free from any such pressures or conditions. Any idea of an alternative practice or instrument should be evaluated on its own merits even if this idea refutes a common practice. The discussion of Transaction Map Theory in chapter 6 outlines an Islamic basis for conducting a full range of financial transactions.

### 3.8 Fatwā: A Scholar's Opinion

A fatwā is normally required when a new legal situation arises. A scholar or group of scholars study the new situation, including the particular circumstances surrounding it, then relate it to another known *sharī'ah* law or condition by a process of analogy ("al-*qiyas*") following which a verdict is given. The fatwā for a particular case might differ from one scholar to another but the more independent the scholar, and the more scholars who agree with the fatwā, the more credible it becomes. In the case of banks practising interest, there is an almost unanimous opinion that this is one of the precise forms of usury which are prohibited in the Qur'ān and the sunnah.<sup>259</sup>

In February 1998, Sheikh M. Tantawi, who at the time held the position of Grand Imam of Egypt, was asked whether bank interest is *ribā*, and was therefore *harām*. Sheikh Tantawi's clear conclusion was that bank interest is indeed the *ribā* prohibited in the Qur'ān and sunnah.<sup>260</sup>

Then, in December 2002, Sheikh Tantawi was accused by some of reversing his fatwā and announcing that bank interest is *halāl*. In his

<sup>259</sup> Hamid, 2002.

<sup>260</sup> Al-Banna and Fouad, 2002.

analysis of this second fatwā, Mahmoud El-Gamal<sup>261</sup> argues that it addresses a situation in which a bank's assets yield a highly reliable rate of return. For example, the stream of rental payments received from a large number of Islamic leasing contracts can, due to the law of large numbers, be predicted in advance with great accuracy. In such a case, if the bank is paid a fixed management fee for managing these assets on behalf of customers, then the customers would in turn receive a highly predictable rate of profit from the bank. This might not be a form of "interest", yet it would have some of the features of interest, since for example it would be highly predictable in amount.

This analysis explains the focus of the second Tantawi fatwā, and why the first refers to "bank interest" while the second refers to "bank profit". The change of wording indicates that the two fatāwa are in fact addressing different issues, and it remains the case that the taking of usury is *harām* and the taking of profit is *halāl*.<sup>262</sup>

### 3.9 Summarising the Islamic Position on Usury

We can summarise the position of Islam on usury as follows. There are two types of usury: "fund usury" (*ribā al-qurūd* or *ribā al-nasī'ah*) which concerns mainly gold and silver; and "barter usury" (*ribā al-buyū'*) which concerns the four items of wheat, barley, salt and dates. Barter usury is itself divided into quality preference usury and deferred payment usury.

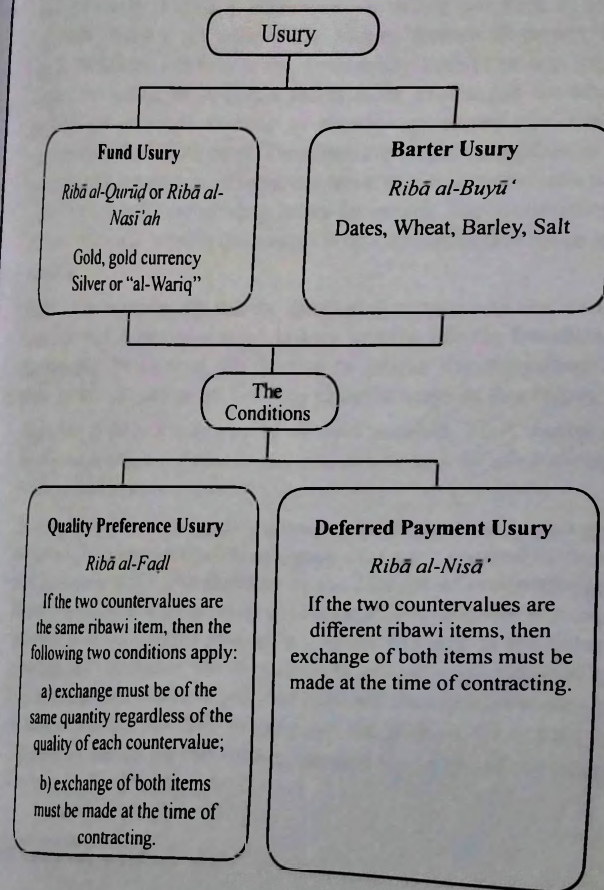
The way Islam deals with usury, unlike Judaism and Christianity, is unique and significant because it relates usury to six specific items rather than describing the usury transaction or defining it in general terms. Two of those items are gold and silver, representing money. There is a strong condemnation of all who are engaged in usury, including witnesses. There is a collective punishment for society as a whole rather than individual punishment for those guilty of usury. Linking usury specifically to gold and silver puts both precious metals at the centre of the concept of money in Islam. Another unique feature of Islamic law is that it is all derived from an infallible original authority,

261 El-Gamal, "Interest" and the Paradox of Contemporary Islamic Law and Finance, 2003.

262 See the discussion of Transaction Map Theory in Chapter 6.

namely the Qur'ān and sunnah, whereas substantial questions hang over the authenticity and interpretation of other religious texts so far as their discussions of usury are concerned.

### 3.10 Forms of Usury and their Conditions





## 4 MONEY

### 4.1 Introduction

Throughout history, money has been the most powerful economic tool used by humanity. Without it, human society would not have achieved its present position in any walk of life. Money derives its power from the fact that almost everyone in the world today uses it in one way or another, and because of its unique ability to be exchanged for almost anything. An enormous demand is thereby generated for money throughout the world at all times. Therefore, any slight corruption of the monetary unit, in any shape or form, can result in a substantial unlawful yield for some, and corresponding losses for others. The accumulation of these yields and losses is quite capable of causing instability in any economy.

Modern economists believe that the creation of money was one of the most important inventions of man's history, as it has laid the foundation for economic development, the division of labour, the marketing of goods and services, and so on. Geoffrey Crowther says in this regard:

*Money is one of the most fundamental of all man's inventions. Every branch of knowledge has its fundamental discovery ... in economics, money is the whole essential invention on which all the rest is based.*<sup>263</sup>

The complexity of modern forms of money is the result of many changes that have been made to the nature of money over a long period of time. In order to have a fair understanding of the concept of contemporary money, it is essential to be aware of its historical development. It is also important to investigate the reasons behind the changes in the nature of money, and conducting this investigation against a background of the relevant Islamic concepts will not only aid the understanding of the subject, but will also help to pin-point the fault in the nature of contemporary money. We may even understand the origin of the terms "funny money" and "false money".

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<sup>263</sup> Islahi, 1988, p. 138.

## 4.2 Functions of Money

Textbooks tend to approach the subject of money through its function. Milton Friedman is widely quoted as saying: "money is what money does".<sup>264</sup> This is a descriptive approach to money, rather than one which abstracts the reality of money.

Abdul Azim Islahi explains that money circulates in an economy similar to the way that blood circulates in our bodies. He goes on as follows:

*Money is said to perform different functions, like measurement of value, medium of exchange, store of value and standard of deferred payments. In the opinion of many economists its function as a medium of exchange is the most important of all.*<sup>265</sup>

## Money as a Medium of Exchange

One of the facts of life is that we live to exchange. Exchange has been an essential means of subsistence for individuals and societies throughout history. A reliance on barter transactions requires the matching of needs for different goods at the same time (the so-called "double coincidence of wants"), an equivalence of value in the exchanged items, and so on. These conditions are rarely fulfilled in most daily transactions, hence the usefulness of money as a medium that facilitates exchange.

It does not matter if we have more than one medium of exchange. What matters is that a medium of exchange should be quantified in a standard unit of account (in other words, it must be divisible into equal units) and its availability should be sufficient to carry out the transactions required within any given economy. Another condition for any successful medium of exchange is that it should not be consumable, in order to minimise the fluctuation of the total money supply within the economy.

When a society chooses its medium of exchange, that medium will automatically have external validity in addition to its internal one. If a medium of exchange is limited to a small group, like a voucher for example, or cannot be used outside a particular society, then this medium will have internal validity only. A good medium of exchange should be a universal one and should function externally as well as internally.<sup>266</sup>

264 Bain and Howells, 2003, p. 37.

265 Islahi 1988, p. 139.

266 See Ritter and Silber, 1977, p. 8; Pearce 1986, p. 281; Al-Kafrawi 1986, p. 13.

## Money as a Store of Value

Different types of value have been defined, including use value, exchange value and sentimental value, but the essence of value for any particular item is innate to its creation. This value is commonly referred to as "intrinsic value", and from it other kinds of value are derived. Intrinsic value is the root of all value concepts, and the storing of value should ensue intrinsically. The condition for money to function as a store of value is that it should be accepted as a means of deferred payment, in other words that it should be accepted as a payment that is agreed for a future date.

## 4.3 What is Money?

In the past, money was in many places easily defined as a currency made of gold or silver. Today's money is more complicated and a more realistic description of it might be "the nothing that is created out of nothing and given the legal power to be exchanged for almost anything". Although this legal power differs from one type of money to another, it defines perfectly the "paper money" or fiduciary fiat money that is in use nowadays.

Modern money has been categorised into various forms, for example as M0, M1, M2, M3, M4 and other successively wider or "broader" measures of money supply. Each of these definitions has a different statistical derivation, as well as various economic and political applications. For example, in the UK official definitions of money, M0 is a "narrow" form of money which includes Sterling notes and coins outside the Bank of England plus Sterling operational deposits held by banking organisations at the Bank of England. This measure was used as a target of monetary policy during the early years of the Thatcher government. M1 expanded M0 by including various forms of Sterling sight deposit held in banks. This measure was first published in December 1970 and then discontinued in July 1989. M2 added to M1 various interest bearing deposits held with banks and building societies, and National Savings ordinary accounts. M3 added holdings of various Sterling time deposits at banks, and certificates of deposit (CDs). It was



discontinued as a statistical measure in July 1989.<sup>267</sup> Today, figures for M0 and M4 are routinely published by many central banks around the world.

In past centuries, money was something real with unique physical properties which allowed it to function independently without legal assistance. Money today has become a concept, a legal and metaphorical concept, one that depends upon an authority which can decide to destroy it as easily as it was created. This same power can decide to "freeze" an account in which money is held, or even abolish it completely while it is in the possession of somebody else. Money of this kind can only partially be owned because the master who creates it has given himself the prerogative to control its value, regardless of who owns it.<sup>268</sup>

#### 4.4 The Phases of the Concepts of Money

Until the late seventeenth century in Europe, money was widely considered as a currency based upon gold, silver or other metals. But since then, with the development of banking institutions and the appearance of paper money, the nature of money has gradually changed. The struggle between financial institutions and the abuse of the power to issue fiat money has led to a fundamental deterioration in the quality of money. In fact, since the emergence of paper money, the debate about its legitimacy has never ceased. The huge profit that accrues to those who issue paper money serves to protect it as an institution, secures its ambiguous and volatile existence, and provides powerful ammunition against those who oppose it. It took several centuries for paper money to deteriorate to its present electronic incarnation, and although this deterioration was entirely a man-made phenomenon, the circumstances behind its starting point were somewhat accidental.

Since the creation of the first paper money, recorded in China over a thousand years ago, the growth in its popularity has consistently exceeded that of any other instrument developed in human society and

<sup>267</sup> These definitions are taken from Bain and Howells 2003, p. 42-43. There are other definitions of money in the UK such as DCE, PSL1, PSL2, M4, M4C, and M3H. Bain and Howells also give details of these.

<sup>268</sup> Tomlinson, 1993, p. 79.

it is now the base of all monetary systems in the world. While the names, shapes and colours might differ from one paper currency to another, they all nevertheless employ the same key concept. It is to this concept that we now turn.

#### The First Phase

Early human societies used barter more frequently than monetary transactions. Some societies used a particular commodity as a common item for their transactions and others used different goods for their mediums of exchange, but at one time almost all societies have used gold and silver as their money. For more than one reason, gold and silver were the king and queen of value, because their unique properties gave them the ability to function as a perfect medium of exchange, as a very reliable unit of account, offering the maximum capacity for storing value and enjoying acceptability as a standard of deferred payment in all places and at all times.

#### The Second Phase

Around the beginning of the thirteenth century, Europe experienced a major increase in commercial activity and goldsmiths played a central role in these activities by the nature of their trade as gold and silver merchandisers and as money lenders.<sup>269</sup> For security reasons, traders used to deposit their gold and silver with a goldsmith and pay them to safeguard the gold or silver in his secure vaults. Goldsmiths would give the depositor a receipt which carried a legal endorsement to repay the amount of gold and silver that had been deposited on demand.

In due course, the goldsmith's receipts came to be accepted in commercial exchange among people. In these early times, it was obvious that a goldsmith's receipt was not the price in a transaction, but that the price was in reality the gold or silver represented by the goldsmith's receipt. The goldsmith's receipt was seen merely as a legal document to allow the bearer to receive the price for a transaction at his convenience. Indeed, the acceptability of a receipt relied entirely on the perceived ability to obtain the underlying gold and silver from

<sup>269</sup> Chown, 1994.



the issuing goldsmith at any time. The promise to pay the bearer on demand the face value of the receipt was a proof that the receipt was not the value itself. The term "I promise to pay the bearer on demand" is still seen on Bank of England notes today, although a bearer asking to redeem a fifty pound note at the Bank of England today will only be recompensed with the like of it. In contrast, the promise on most dollar notes has been replaced by the words "This Note is Legal Tender for All Debts Public and Private". Euros, as tailor-made fiduciary fiat money notes, have completely avoided any form of words relating to this matter.<sup>270</sup>

### The Third Phase

The nature of the goldsmiths' trade required an adequate knowledge of accountancy. As goldsmiths possessed this type of knowledge, they recorded the very important observation that during any given period of time only a percentage of the total deposits of gold and silver were redeemed while the rest remained undisturbed in their vaults. This was a consistent observation from period to period and the goldsmiths were able to calculate that total redemptions never exceeded a low percentage of the total deposits that they held. If, for example, the redemption ratio was twenty five per cent, the remaining seventy five per cent of gold and silver would be idle in the vaults during the whole period.

Some goldsmiths saw this observation as the opportunity of a lifetime. Their idea was to issue new receipts without any deposit of gold or silver to back the issue. In doing this, they would rely on the low redemption ratio in the hope of not being discovered. This idea of issuing a receipt carrying the same promise to pay the bearer the stated amount of gold and silver produced the biggest and the most important phenomena in recent human history. It did not take long to turn the idea into practice. From now on, goldsmiths issued two types of receipts. One receipt was backed by the amount of gold and silver that it represented, the other was merely a fiduciary issue, meaning that the amount of gold and silver stated on the face of the receipt did not in fact exist. Yet both receipts appeared exactly the same and stated the same promise, and it

270 Byatt, 1994, p. 93.

therefore became impossible to distinguish between them.<sup>271</sup> This act of issuing fiduciary receipts became known as "the creation of money". Some commentators recognised the process as a form of counterfeiting, and many others experienced its negative effects within the banking system. One of them was bankruptcy.<sup>272</sup>

Bankruptcy would occur when one of the goldsmiths issued more fiduciary receipts than the market could absorb. Holders of these receipts then began to worry that the goldsmith would be unable to fulfil his promise to redeem. When the market finally lost confidence in the goldsmith, holders of his receipts would rush to claim their deposits of gold and silver, but since the goldsmith could not give them something which had never existed in the first place, his currency table ("banco" in Italian parlance) would be broken (hence "bankrupt") and he would thus be prevented from continuing in business.

What then motivated the goldsmiths to engage so heavily in the act of money creation? When goldsmiths discovered the ability to create money out of absolutely nothing, they also knew that this money would only be useful if it was loaned to somebody else for a charge of some kind, calculated according to the length of the lending period. Making this charge was precisely an act of usury,<sup>273</sup> but because this act was subject to religious prohibitions it was not regarded as being helpful to the goldsmiths' business to advertise it as such. A more marketable word had to be found in place of usury, and that word was "interest".<sup>274</sup>

Although these two words represent the same technicality from the accounting and transaction point of view, they have opposite linguistic meanings. Whereas "interest" is something acceptable, "usury" is not. This type of linguistic distortion has led to major misconceptions on the subject of usury.

It is likely that the act of money creation combined with the charging of

271 Tomlinson, 1993, pp. 28-29; Cole, 1954, pp. 30-31.

272 Tomlinson, 1993, p. 11.

273 Usurers might justify their loan charges on the basis that there is an opportunity cost for the use of their money, but a bank that creates money out of nothing is surely unjustified in making the same claim.

274 Zarlenga, 2002, p. 187.



interest to produce the well known maxim that "increased risk produces higher returns". This maxim refers to the higher interest income that can be earned through the lending of money, while the creation of that money increases the risk of bankruptcy.

It is worth mentioning here that from a monetary point of view, newly created money must have a price or a cost or it will be worthless and its supply will become limitless. Hence, without usury, the system of money creation could not have come into existence. Hanson states in this regard that:

*...the price of money, therefore, is the rate of interest. In fact, this is simply a further example of the essential difficulty associated with the concept of the value of money; namely, that it has different values in terms of different commodities and services, the rate of interest being the value of money for a particular purpose - borrowing and lending.<sup>275</sup>*

As an accounting technicality, the sum of money which has been created and lent to a borrower is entered into one column of an account, while an equal liability is entered into the opposite side. The account book will then balance, and the amount of usury charged by the goldsmith is his yield.

### The Fourth Phase

As some goldsmiths were already involved in money lending and currency trade, they perceived a lucrative opportunity in specialising in the issuance of monetary receipts. In order to increase their profits and to be able to produce more fiduciary money, they began to promote the money production operation by paying depositors for their deposits instead of charging them for the service of safe-keeping. This allowed them to increase the amount of deposits, and in turn produce more fiduciary money for lending at interest. The combination of money lending, fiduciary money production, linguistic distortion and a violation of the prohibition of usury, were the perfect ingredients to form one of the most powerful institutions in human history, namely "commercial banking".

<sup>275</sup> Hanson, 1978, p. 172.

Although the conditions of manufacturing money have changed over the years, the main function of commercial banks today, before any other service, is to manufacture money. The concept of the bank as a mediator between lender and borrower or between investor and entrepreneur is highly misleading and inadequate. The main function of a bank is to create money and then lend it. Obviously banks fulfil other functions, but all are much less significant than their creation and lending of money, and the provision of these other services now depend largely on the ability of banks to create money.<sup>276</sup>

### The Fifth and Final Phase

The fifth phase completed the transition from money as a physical item that is produced using various factors of production, to the stage where money is produced out of absolutely nothing and yet can be exchanged for almost anything.

The ability to manufacture money out of nothing was achieved through the enforcement of exclusive licences which restricted its manufacture to banks, and then as a state monopoly given legislative support by the device of "legal tender". Most independent states today have their own banking system which is controlled and regulated by a central bank. To stop banks falling into inevitable bankruptcy, the central bank acts as a guarantor for the banking system by being the "lender of last resort". In this capacity, the central bank can provide whatever amount of cash is required by those banks whose own reserves have fallen short of what is required to redeem their customers deposits.

Adam Smith once described the Bank of England as "a great engine of state."<sup>277</sup> There are approximately one hundred and eighty state engines around the world today producing nearly the same number of different national currencies. The conversion rate between different currencies does not necessarily reflect the strength of the underlying economy, as is commonly believed, since it is also largely affected by the prevailing international and domestic political situation, the level of interest rates, and expectations regarding future trends in money supply. Included in

<sup>276</sup> Zarlenga, 2002.

<sup>277</sup> Smith, *op. cit.*

these factors is the strength of relations with influential international institutions such as the World Bank and International Monetary Fund (IMF).

National currencies today have no direct relation to the gold reserve in the issuing country. Since the abolition of gold redemption for the US Dollar by President Nixon in 1971, the relation between currencies and gold reserves has become meaningless. The struggle between currencies nowadays reflects the political and economic power behind each, yet the influence of gold still haunts fiduciary money everywhere, and indeed gold remains securely stored in many central banks as a means of providing credibility to the national currency. Judy Shelton writes that:

*Nixon and Connally, along with Burns, Herbert Stein (who would become chairman of Nixon's Council of Economic Advisers), and Paul Volcker (who was Treasury Under-Secretary for Monetary Affairs at the time) assembled at Camp David to confront the impending problem of foreign gold redemption and to devise a strategy for heading off an embarrassing financial catastrophe. On the Sunday evening of August 15, 1971, that strategy was announced: the United States would no longer permit foreign governments or central banks to redeem U.S. dollars in gold.*<sup>278</sup>

#### 4.5 The "Currency School" and the "Banking School"

At the beginning of the 18th century in England, issues of currency stability and inflation were a matter of much debate. The Currency School wished to restrict the issuance of note-backed paper by the banks. They regarded precious metals as money, and bank notes as mere receipts for money deposited in the bank. Meanwhile, the Banking School viewed paper notes issued by the banks as legitimate currency against which only a fractional reserve of precious metals needed to be held.<sup>279</sup>

The growth of banking since the eighteenth century, and the attendant spread of the practice of money creation, has had a major influence on the subject of economics, to the extent that monetary economics has

<sup>278</sup> Shelton. 1994, p. 81.

<sup>279</sup> Blaug. 1997, pp. 201-202.

become one of its main concerns. Many relevant doctrines and theories were produced in this regard, including Marx's Theory of Capital, the Wages Fund doctrine, theories of interest and of money, theories on inflation and monetary management, and so on. Yet the Muslim world has been almost completely absent from these debates. The main issues that concerned the Muslims in relation to money were the prohibition of usury and the rules of zakāh, issues which were largely or totally ignored in Europe. The direction of European discussion on the topic of money creation therefore paid little attention to its fundamental connection with the practice of usury, and the contrast offered by a monetary system that is subject to zakāh.

In practice, the victory of the Banking School's view of money led academic and political discussion of the topic into an intellectual dead-end. The economics of money became the subject of various interest groups, among which the banks were by far the best funded. Today, this influence is particularly noticeable. Research and media commentary on issues relating to the monetary system are largely financed and undertaken by those within the banking sector. In a topic that is so directly related to the commercial interests of the banking system, such a relationship is highly questionable.

#### 4.6 The Fiat Money Quantitative Illusion

Money which is given its value by order (or "fiat") of the state, is nothing but a numerical figure endowed with legal purchasing power. In order for the creator of fiat money to obtain interest, which is in most cases the ultimate objective of its creation, he must create a debt equal to the amount of money he has created. This debt is a negative quantity, and as such it cannot exist in reality. Yet, for accounting purposes, it is given a mathematical representation and this creates an illusion of existence. The illusion is further supported by the fact that interest is charged for the money which has been created, since in the public mind it is well established that a charge would not be made for something which does not exist. It is rather amazing that this illusion can only continue because of the violation of one of the strongest Divine conditions, namely the prohibition of usury.



#### 4.7 Fiat Money and Inflation

Carl Wiegand said that:

*Inflation is a form of disguised economic, moral and political bankruptcy.*<sup>280</sup>

Inflation can result from the creation of money which is not matched with physical goods and services, and where it is the government which creates the money, the inflation is in effect the result of trying to provide the voters with 'something for nothing'.<sup>281</sup>

Wiegand explains:

*Almost everybody recognizes the fact that prices are rising and the purchasing power of money is declining. Most experts think of inflation in terms of an increase in the supply of money and credit in excess of the available goods and services: too many dollars chasing too few goods. More popular is the use of the term inflation in the ex post sense of an increase in the general price level. The first use of the term refers primarily to the causes of inflation, the latter to its manifestation; and there is danger in confusing the two uses of the same word. If we think of inflation as an increase in the general price level, we are tempted to combat inflation by simply establishing price controls, even through these controls deal merely with the symptoms rather than the causes and are likely, in the long run, to produce even worse dislocations. Moreover, as one takes a long historical view, it is by no means obvious that inflation is a temporary disorder, unnatural, abnormal and unusual. Exactly the opposite may be true. Over the long haul, inflation, the progressive decline in the purchasing power of money, may very well be a natural and normal condition of human affairs, with periods of price stability the rare instances of abnormality.*<sup>282</sup>

There are various kinds of inflation and J. L. Hanson states that there are at least three senses in which the term 'inflation' is used:

1) It may mean nothing more than a moderate expansion of bank credit instigated by the central bank following up on the acquisition of increased supplies of gold by a country on the gold standard. This country experienced brief periods of inflation of this sort on many occasions in the century before 1914. 2) It can be used to describe the situation in this country and many other countries in the years since 1945, when for a number of reasons there has been a persistent tendency for prices and wages to push one another upwards and for there to be a continuous expansion in the supply of

280 Wiegand, 1977, ix.

281 *ibid.*, p. 101.

282 *ibid.*, p. 130.

*This situation has tended to become more persistent. 3) The most serious type of inflation is the sort experienced in Germany and Austria after the First World War, again in Germany, Hungary and China after the Second World War and more recently in some of the countries of South America. The feature of all these inflations has been that prices rose at an ever-increasing rate until colossal sums had to be paid even for the cheapest things which is called hyper-inflation. In the end in most cases money became quite worthless and a new currency had to be adopted.*<sup>283</sup>

Today, the money that is created by the banking system (often referred to as "bank credit") is being loaned in return for government I.O.U.'s (such as government bills and bonds) which the government itself can print without restriction, and in return for the I.O.U.'s of corporations and consumers (including such instruments as "corporate bonds" and "home mortgages"). These private sector debts can also be generated without an automatic and simultaneous increase in production. It is therefore easy to see how money supply can expand faster than the output of an economy, and thereby produce inflation.

Colonel Harwood suggests two indispensable steps in the battle against inflation:

1) The creation of a new standard of value acceptable throughout the Free World, expressed in a quantity of gold, and the right of the people to express and measure all obligations in terms of the new standard of value. 2) A reform of the commercial banking system, with investment-type assets limited to the amount of saving-type liabilities, and with the assets balancing demand deposits and paper money, consisting only of gold and self-liquidating commercial paper.<sup>284</sup>

Hanson argues that a very important step to fight inflation is to coin gold in unit weights (not as dollars) and to restore the freedom to contract in terms of gold or its equivalent as is expressly provided and implied in the Constitution of the United States. He argues that no new and complicated legislation would be required. Free minting of coins and stamping of gold bars would be undertaken thereafter by the government. Gold coins would be minted by the government to assure uniformity. Gold bars could be manufactured by private sector organisations as well as the government, if they chose to do so. However, if government bars

283 Hanson, 1962, p. 196.

284 Hanson, 1962, p. 162.

were refined and stamped with a weight and fineness free of charge, then this would probably remove any incentive for the private sector to offer such a service.<sup>285</sup>

#### 4.8 Fiat Money and the Credit Crunch

In the spring of 2007, American Home Mortgages, one of the largest US home loan providers, filed for bankruptcy. As the financial crisis started to build, the entire American banking system came close to collapse. From the US to Europe, a snowball effect gathered pace to develop into what became known as the "credit crunch", the event that popped a super-bubble that was bigger than almost anything experienced before.

Since the beginning of this crisis, many economists and politicians have tried to explain its cause. Some have blamed the inefficiency of the market, or the mismanagement of the banking system. Others blamed a lack of sufficient regulation of the financial markets. The foregoing arguments indicate that the cause of this bubble is exactly the same as the cause of the many previous bubbles, namely the nature of modern money.<sup>286</sup> It is the creation of money from nothing and the violation of the usury prohibition that is at the heart of all of these so-called bubbles.

A simple analysis of the problem is as follows. When interest rates are low, commercial banks can increase their lending and thereby increase the money supply. As borrowers spend the newly created money, prices begin to rise. The increase in inflation causes the central bank to raise the interest rate for the whole economy and, as these rises take effect, individuals as well as businesses find it more difficult to repay their debts. Some begin to sell assets in order to obtain the cash necessary to repay their bankers. Prices of assets therefore begin to decline and the very assets on which many bank loans are secured begin to become less valuable. Businesses begin to lay off staff as demand for their goods declines, leading to increased unemployment. All of this begins to create large losses for the lenders in the banking system. Worse still, the repayment of debt to banks, actually destroys money supply, which

285 Hanson, 1962, p. 171.

286 Here, "modern money" includes money issued by the state and by the commercial banks.

makes it even less likely that economic activity will recover. George Cooper comments:

*Money and debt are created in pairs, from nothing, live for a while and then vanish when they recombine. Taking out a loan creates a money-debt pair, paying off the loan destroys a money-debt pair.*<sup>287</sup>

The above cycle is famously known as "boom and bust". During the worst moments of each bust, it is typical that politicians and bankers will gather and agree to bail out the banking system by pumping in more money by means of emergency loans or bailout packages, and by providing a monetary or fiscal stimulus to the financial market as a whole. In doing so, the seeds of an even bigger bubble are sown and the scale of debt and suffering in times to come are increased. George Soros mentions in this regard:

*Total credit outstanding was 160 percent of GDP in 1929, and it rose to 260 percent in 1932 due to the accumulation of debt and the decline of GDP. We entered into the Crash of 2008 at 365 percent, which is bound to rise to 500 percent or more by the time the full effect is felt. And this calculation does not take into account the pervasive use of derivatives, which was absent in the 1930s but immensely complicates the current situation.*<sup>288</sup>

Cooper summarises as follows:

*The new currency regime, without a gold exchange rate, is known as fiat money. The movement from a currency backed by gold to one with no fixed gold price represented a momentous shift in our financial architecture. The invention of gold depository banks and thereafter the development of fractional reserve banking created the first type of credit creation process. The banks were able to create money, from thin air, by literally printing and handing out certificates of deposit. But for each certificate of deposit that was handed out the banks also created a corresponding debt (money—anti-money). The advent of fiat money allowed for an entirely new mechanism of monetary creation. Governments had now awarded themselves the right to create their own money without any corresponding liability; since there was no longer a promise to convert the printed money into gold, there was no longer a liability associated with printing that money.*<sup>289</sup>

287 Cooper, 2008, p. 53.

288 Soros, 2008, p. 169.

289 Cooper, 2008, p. 69.



#### 4.9 Money and Islam

Makkah, where the Prophet Mohammed (s.a.w.) was born, was privileged to have "al-Ka'bah" in its centre. This made Makkah the capital of the Arabian peninsula at that time.<sup>290</sup> Here, daily life was an amalgam of nomadic, commercial and religious activity. In the midst of such varied activities, Makkah became a financial and commercial centre as well as a holy city. Almost every household in the peninsula had some connection with commerce, religion or nomadic activity, which gave most individuals an appreciation of money and its importance at an early stage.

The political structure was based upon tribal influence, and no tribe was influential enough to be capable of forming a central authority that would mint a currency. Instead, gold and silver were accepted as currencies not because of the authority of the minting issuer, but because of the intrinsic purchasing power which both metals have traditionally enjoyed throughout the world.

#### Prophet Muhammad and the Issue of Money

The ultimate objective of the message of Islam is justice, a comprehensive justice which requires an overall balance in human activities. According to Islam, that balance can only be achieved by applying shari'ah which contains laws in a positive or negative form, in other words in the form of "do" or "do not". Sometimes shari'ah describes an instrument or method which should be used for a specific purpose, such as the calendar of time:

*"They ask thee concerning the New Moons. Say: they are but signs to mark fixed periods of time in (the affairs of) men....."*<sup>291</sup>

The conclusion from the dialogue in the above verse is that Muslims should calculate time according to the lunar calendar, which matches the cycle of the moon in its orbit. Furthermore, the Regulator has tied other periodic issues to this cycle, such as the beginning of Ramadan,

290 Ghanem, 1998. See also Al-Najar, 1984; Abduh, 1970; Al-Sawi, 1990; and Muslih, 1976.

291 Qur'an 2: 189.

and the day of 'Arafat (during pilgrimage) which all Muslims celebrate together. So, according to Islam, the lunar calendar must be used, but this does not mean that any other calendar cannot be used as a supplement to it. Muslims are indeed free to use other calendars besides the lunar calendar so long as these do not conflict with or contradict Islamic principles or rules.

Similar is the issue of using "siwak", the Arak stick, which is a twig from a tree whose natural properties allow it to be used to clean teeth and gums. Prophet Muhammad (s.a.w.) used siwak and recommended its use to all. Again, the same principle applies here. Any method or device can be used to clean teeth and gums, including the siwak, so long as it does not conflict with or contradict any Islamic principle or law. However, no authority can forbid the use of siwak specifically, since the Prophet Muhammad (s.a.w.) used it and allowed it to be used.

For measurement, Islam does not normally prescribe any particular instrument. Instead it describes the principle applied in measuring:

*And the Firmament has He raised high, and He has set up the Balance (of Justice, in order that ye may not transgress (due) balance. So establish weight with justice and fall not short in the balance.*<sup>292</sup>

Human beings use different instruments for weighing and measuring, and develop these instruments according to the technology available, not only for convenience but also for accuracy. Allah (s.w.t.) directs our attention to the importance of the principles of balance and of justice upon which all creation depends. So when human beings create an instrument, it should be based on balance and its usage should be regulated to guarantee justice and to prevent abuse.

The Islamic concept of money fits within the aforementioned verse. Since money is such an essential device, used in markets of every description, it must be protected from corruption. Writers such as ibn Khaldun have proposed that Allah (s.w.t.) created gold and silver, and made people instinctively attracted to them, precisely in order that these metals can function as a calibre for value and be used as a price. They are a kind of safety net too, that can be readopted in the

292 Qur'an 55:7-9.

event that new kinds of money are introduced which do not function efficiently.

The Prophet Muhammad (s.a.w.) used gold and silver as money and related other Islamic rules to them, so in Islam no authority can prohibit or even restrict the use of gold and silver as money. But as the monetary system has changed, and in order to protect the purchasing power of fiat money and the various functions of money, an international restriction on the use of gold and silver as currency has gradually emerged. One notable attempt at restriction took place during the presidency of Franklin Roosevelt who, on 5<sup>th</sup> April 1933, declared that the hoarding of gold coins, gold bullion and gold certificates was forbidden. The President declared that:

*I, Franklin D. Roosevelt, President of the United States of America, do declare that said national emergency still continues to exist and ... do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations and corporations.*<sup>293</sup>

This event was monumental in the history of the modern monetary system because it set the precedent for further confiscations elsewhere the world. Today, the IMF requires that member nations do not adopt gold as a basis for their domestic currencies<sup>294</sup> and in some countries, including Britain and the United States, it was illegal to hold gold bullion in a private capacity for much of the twentieth century. International politics also plays a role in restricting the use of gold. The United States from time to time exerts considerable pressure on other countries to continue using dollars as a settlement mechanism for international trade transactions, in particular as the pricing medium for oil. Under these combined circumstances, it is very difficult for any nation state to declare its opposition to the mainstream system without facing isolation or reprisals of some kind.

Once again, in addition to gold and silver, Muslims are free to use other types of money or other instruments or devices as money, under the control of an appropriate regulator. The use of copper money (called "al-fulūs") is one example of this in the historical record. Al-fulūs

293 Franklin D. Roosevelt, Executive Order 6102, 5 April 1933.

294 International Monetary Fund, Articles of Agreement, Section 4.2b.

was a lesser form of currency, and although there was some debate about whether the rules of gold and silver should be extended to copper money, the issue of its unlawfulness as a form of money was rarely raised in that debate. The issue of paper money is however different, for the following reasons.

Firstly, the function of paper money, unlike copper money, does not depend on its physical properties. Paper money can be produced by mere human decision, which means that the cost of producing it is much less than the value which it represents. This presents a problem from the perspective of value comparison, since both a unit of gold and a unit of paper money may purport to have the same exchange value, while the cost factor of the latter is close to zero. In order to overcome the consequences of this discrepancy, value has been established for paper money through the charging and payment of interest. Otherwise, when faced by a choice between holding a bank deposit promising to pay one pound in gold, or the gold itself, many individuals would prefer the latter.

Secondly, the acceptance of the circulation of paper money comes from its declaration as "legal tender", not through public choice as is widely claimed. In contrast, metals such as gold, silver and copper have an intrinsic value which relates to their cost of production, and their value as materials guarantees an overall demand for them regardless of their use as a currency.

Thirdly, if it is true that paper money has gained its acceptance through the prohibition of gold and silver money, when the Prophet Muhammad (s.a.w.) allowed the use of gold and silver, then this fact alone makes the prohibition of gold and silver money invalid. This is a powerful challenge to the acceptability of paper money in Islam.

### Money in the Qur'ān

*Fear in the eyes of people is the love of things they covet: women and sons, heaped-up hoards of gold and silver; horses branded (for blood and excellence) and (wealth of) cattle and well-tilled land. Such are the possessions of this world's life; but with Allah is the best of goals (to return to).*<sup>295</sup>

<sup>295</sup> Qur'ān 3:14.



In this verse, the word "men" refers to all human beings, and regardless of race, belief, place or era, all human beings are attracted in particular to the items mentioned there. The verse not only acts as a statement of fact, but also encourages one to consider the function of the attraction itself. We know without doubt that life could not be sustained without the attraction between men and women, and the same applies to loving one's own children despite all the trouble and inconvenience that they can cause. If the function of the attraction of these things is clear, then we should expect that the result of the attraction to heaps of gold and silver will have a function of only slightly less importance than that which relates to loving women and one's own children. Recognising how important money is to human life, what other function could fulfil the purpose of human attraction to gold and silver, but that they are to be used as money?

Further unique properties of gold and silver make them the best unit of account and nearly impossible to counterfeit. Despite the huge desire to obtain and own them, their usage in real life applications is very limited. They are not substantially consumable items, which makes their quantities stable, either in bullion or currency form.

Use of the word "heaps" in the verse, indicates that the propensity for possessing these two precious metals is huge which makes the demand for them constant. However, holding or owning them is a cost bearing exercise, due for example to the associated security costs. Hence, the owner will always need to find a balance between the marginal expense and the marginal benefit of holding the next unit of gold or silver. In addition, for every Muslim, every unit of gold and silver owned in excess of a fixed threshold ("an-nisāb") for a period of one lunar year, bears an additional cost of 2.5% in the form of zakāh.

These two elements, the zakāh and the cost of security, represent deterrents to hoarding gold and silver. The security cost is a natural constraint as a result of the physical properties of precious metals, while zakāh is a major Islamic condition acting upon the monetary system. It may also be seen as a financial test for the believer.

One commonly hears the argument that there is insufficient gold and

silver to facilitate the huge volumes of international trade of modern times. This argument is invalid for three reasons. Firstly, if we are convinced that Allah (s.w.t.) has created gold and silver to fulfil the function of money, then we must also believe that He has created them in sufficient quantities to allow them to fulfil that function. Secondly, for international trade, the payment settlement is periodic and hence settlement is not for the total value of transactions undertaken but instead for the net amount between any two parties. This point addresses the nature of the monetary system, rather than that of money.<sup>296</sup> Thirdly, if a precious metal is in short supply as a monetary medium, then a substantial rise in its rate of exchange against other items (in other words, a general fall in prices), will automatically cure that shortage. In an interest-free economy, it may well be that the burden of adjustment is shared between an increase in production of precious metals and a fall in the general price level.

In his chapter on "Būyuh" in *al-Fatawī al-Hawawī*, Hafiz Glohaddīn Abdul Rahmān bin Abubakr Assyouti<sup>297</sup> states that ibn Abi Sheebah mentioned that Ka'b said:

*Prophet Adam peace be upon him was the first to mint gold and silver currency as Dinar and Dirham.*<sup>298</sup>

The Qur'ān says:

*They (all) said, Allah (alone) knows best how long ye have stayed here ... Now send ye them one of you with this money of yours to the town: let him find out which is the best (and to be had) and bring some to you.*<sup>299</sup>

The Arabic word which has been translated in this verse as "money" is "warajikkum", which literally means "your silver coins". Here the Qur'ān mentions silver coins as currency in a story that tells of the effects of a long period of time, and does so in relation to the value of silver as currency. This indicates that the properties of silver suit it for use as currency across time. In the long term, the supply of silver

<sup>296</sup> MacLeod, 1894.

<sup>297</sup> Assyouti died in 911 A.H.

<sup>298</sup> Assyouti, 1985, p. 134.

<sup>299</sup> Qur'ān 18:19.

(together with the cost of mining, refining and minting it as currency) would keep its exchange value relatively stable.

In the following verse, Allah (s.w.t.) warns us not only to avoid hoarding gold and silver in particular, but that we should spend them. Naturally, such an order cannot be applied unless gold and silver are used as money! The fact that gold is mentioned before silver in the verses currently under attention reflects the human inclination towards gold first and silver second, evidenced today in such phrases as "go for gold".

*And there are those who hoard gold and silver and spend it not in the Way of Allah: announce unto them a most grievous chastisement- on the day when it will be heated in the fire of Hell, and with it will be branded their foreheads, their flanks and their backs, -this is the (treasure) which ye hoarded for yourselves: taste ye, then, the (treasures) ye hoarded.*<sup>300</sup>

The unique properties of gold and silver have led some Muslim scholars to restrict the element of ath-thamaniyya to them alone, while other scholars mentioned that other substances could contain a partial element of ath-thamaniyya. Nevertheless, all scholars agree that gold and silver enjoy the element of ath-thamaniyya fully.

In another verse from the Qur'an:

*Among the People of the Book are some who, if entrusted with a hoard of gold<sup>301</sup> will (readily) pay it back; others who, if entrusted with a single silver coin, will not repay it unless thou constantly stoopest demanding, because, they say: 'there is no way over us as to the unlettered people', but they tell a lie against Allah, and (well) they know it.*<sup>302</sup>

The verse addresses currencies which were in circulation at the time,

300 Qur'an 9: 34-35.

301 A *qinār* represents a talent of 1,200 ounces of gold.

302 The following commentary is offered on Qur'an 3:75: "Silver coin: *ḍinār*. In the later Roman Empire the *denarius* was a small silver coin. It must have been current in Syria and the markets of Arabia in the time of the Prophet. It was the coin whose name is translated in the English Bible by the word penny [Matt. xxii. 19]; hence the abbreviation of penny is *d* (= *denarius*). The later Arabian coin *ḍinār* coined by the Umayyads was a gold coin after the pattern of the Byzantine (Roman) *denarius aureus* and weighed about 66349 grains troy, just a little more than a half-sovereign."

in the context of the importance of honouring trusts. Here is a further confirmation of the validity of using gold and silver as currency from the Islamic point of view.

### Money in the Sunnah

Islam has applied special conditions to the use of gold and silver, commensurate with their essential role as currency and measurement of value. These include the prohibition of hoarding gold and silver, the payment of *zakāh* on money balances, the specification of ransom money and punishment for theft.<sup>303</sup> The Prophet Mohammed (s.a.w.) also prohibited the use of gold and silver for domestic ware such as cutlery, plates and cups. Furthermore, perhaps in order to keep the amount of currency in the economy stable, he prohibited men from wearing gold as jewellery although it is allowed for women. An explanation of this is that men use gold as jewellery to show off their wealth and arrogance, which is not at all a virtue, while women use gold jewellery for beautification and adornment, which is part of their nature.

At the same time, it is allowed for men to use gold to replace their natural parts if lost because that type of usage is merely an attempt to be as close to normality in appearance as possible, which is far from arrogance. Arfajah ibn As'ad narrated that:

*Abdur Rahman ibn Tarifah said that his grandfather Arfajah ibn As'ad who had his nose cut off at the battle of al-Kilab got a silver nose, but it developed a stench, so the Prophet (s.a.w.) ordered him to get a gold nose.*<sup>304</sup>

In the Qur'an one finds that men will enjoy wearing gold and silk in heaven. From this we can imply that gold is not evil in itself. The restriction which is placed upon the wearing of gold by men in this life is therefore a functional prohibition, one which aims to restrict its usage to the intended purpose. Such functional prohibitions contrast with the kinds of prohibition which arise from the harmful nature of things, such as the prohibition of drinking alcohol or eating pork.

<sup>303</sup> The Prophet (s.a.w.) said that a hand cannot be cut until what is stolen reaches a quarter *ḍinār* (of gold) and three *dirhams* (of silver).

<sup>304</sup> Abu Dawud, 2008, Book of Signet Rings.



*For them will be gardens of eternity, beneath them rivers will flow: they will be adorned therein with bracelets of gold, and they will wear green garments of fine silk and heavy brocade.*<sup>305</sup>

It is known that the Prophet Mohammed (s.a.w.) used gold and silver as money, even though some coins at the time contained words or images which were considered alien to Islamic principles. The Prophet (s.a.w.) ignored these words and images, favouring stability in the monetary system over problems arising from unsuitable minting authorities and coinage designs. In *History of the Monetary System*, Alexander del Mar writes:

*The Arabian emirs or caliphs call them what you will, struck no independent coins before Abd-el Melik. Their coins bear the stamp of Roman suzerainty, the emblems of the Roman religion, the legends of Roman superstition. These are proofs until Abd-el-Melik that the Arabian caliphs were not independent sovereigns. But the coinage proves more than this, it proves that the temporal sovereignty of the caliph did not arise from their spiritual authority. This existed from the time of Mahomat, while the temporal sovereignty only began with Abd-el Melik. Another proof of the currency of this view is derived from the coinage of gold which, with Arabs as with the Persians and Romans, was a sacerdotal prerogative; this prerogative belonged to the caliphs as the sovereign-potiff of Islam. The early Emir struck no gold, not even with Roman devices.*<sup>306</sup>

Taken together, the above evidence demonstrates the strong relationship that exists in Islam between gold and silver on the one hand, and "priceness" on the other. It also strongly suggests that the Islamic monetary system is based upon the use of gold and silver.<sup>307</sup> Of course, none of this implies that people must carry gold and silver in their pockets. The way in which people use currency to settle transactions should be described and regulated by a monetary authority and can certainly reflect the technological capacity of the age. An Islamic monetary system which is based upon the prohibition of usury and money creation, can also take into account prevailing international, social, economic and political structures so far as these do not violate or comprise any aspect of *shari'ah*.

305 Qur'an 18:31.

306 Del Mar 1895, p. 126.

307 Zallum, 1983, pp. 202-206.

#### 4.10 Alleged Scarcity of Precious Metal

If gold and silver have indeed been created to be used as currency, then an insufficiency of them would be in clear contradiction to the principle of precision and natural balance discussed earlier. On the other hand, scarcity does exist in this world, not as an error of balance but as a Divinely specified difference between human desires and what has been created to satisfy those desires. Central to this issue is the scarcity of the precious metals, in particular gold and silver. In *Bimetallism* Henry Dunning MacLeod states that:

*But to speak of any supposed increase in the value of gold from an alleged scarcity of it as appreciation is absurd. The alleged scarcity of gold is purely mythical. It exists only in the imagination of the Bimetallists. The earth teems with gold. The supply of it is constantly increasing, and new sources of its production are being discovered every day.*<sup>308</sup>

Adam Smith also states in this regard that:

*When the profits of trade happen to be greater than ordinary, over-trading becomes a general error, both among great and small dealers. They do not always send more money abroad than usual, but they buy upon credit, both at home and abroad, an unusual quantity of goods, which they send to some distant market, in hopes that the returns will come in before the demand for payment. The demand comes before the returns, and they have nothing at hand with which they can either purchase money or give solid security for borrowing. It is not any scarcity of gold and silver, but the difficulty which such people find in borrowing, and which their creditors find in getting payment, that occasions the general complaint of the scarcity of money.*<sup>309</sup>

#### 4.11 Money, Science and the Laws of Physics

This section clarifies the physical characteristics of gold<sup>310</sup> and silver which make them the best calibre of value and the best medium of exchange as well as the best form of deferred payment.

308 MacLeod, 1894, p. 131.

309 Smith, *op. cit.*, p. 349.

310 The physical properties of gold in particular make it highly suitable as a form of money and price measurement. According to the World Gold Council (2006), its crystalline structure contributes to a very high degree of ductility, and its resistance to corrosion is one of its most useful properties.



## Frederick Soddy

One of the most important modern thinkers on the subject of money was Fredrick Soddy (1877-1956). Soddy's entry in *Who was Who* reads as follows:

...as early as 1906 he lectured to electrical engineers on the internal energy of elements and involved himself in a discussion about the wisdom of using gold as a currency material. This led him to be interested in all aspects of economic and monetary reform. Such papers as *Cartesian Economics* (1921) and a *Physical Theory of Money* (1934) he regarded as of great importance, but they were not so regarded by the economists ... in 1926, he put forward a *Reformed Scientific National Monetary System* ... Soddy was elected F.R.S. in 1910 and received the Nobel Prize for Chemistry in 1921.<sup>311</sup>

Soddy's works on economics are *Virtual Wealth Theory and Application of Laws of Conservation to Economics* (1921), *Wealth, Virtual Wealth and Debt* (1926), *Money Versus Man* (1931), *The Role of Money* (1934), and *The Archenemy of Economic Freedom* (1934).

Soddy's idea was that the general public should enjoy the fruits of scientific achievements, whereas in reality he observed a huge gap between what scientists achieve in the laboratory and the benefits that flow to the public from those achievements. This observation led him to study economics, where he discovered that the reason behind this gap is the instrument of money, in particular the nature of fiduciary money. Soddy the scientist could not accept the idea that some private institutions were permitted to create money from nothing and thereafter exchange it for something which has been produced by labour and capital. In *The Role of Money* he described money creation in the following terms:

*This without exaggeration is the most gargantuan farce that has ever been staged.*<sup>312</sup>

In this work he goes on to write:

*The monetary system is actually based on the very error to the point blank denial of which Western civilization owes its greatness. It serves only the convenience of parasitic and upstart plutocracy practising a worldly wisdom the exact opposite to that which is the foundation of the age. It prefers the dark in times when all men seek the light, and sowing the seeds of hatred and war in a world weary of death and strife. It is poisoning*

311 Who was Who, 1961.

312 Soddy, 1934, p. 52.

*the walls of Western civilization, and science must turn from the conquest of nature to deal with a more sinister antagonist, or lose all it has won.*<sup>313</sup>

In *Money Versus Man*, Soddy writes:

*There cannot be two heads in one state and the people have to choose between parliament and the Bank.*<sup>314</sup>

Soddy's allegation is that the contemporary monetary system is not only unjust, but is also a self destructive instrument that will collapse one day, either of its own accord or as a result of the economic and social turmoil that it causes. It may even be that such turmoil manifests itself in the form of the war on usury that Allah (s.w.t.) has promised to those who refuse to abandon it.

## Entropy

Everything in this life is part of a destruction-reproduction cycle. Some things are destroyed by the consumption of others, while others carry within themselves an element of their own destruction. The Qur'ān has explained this in the following comprehensive statement:

*And call not, besides Allah, on another god. There is no God but He. Everything (that exists) will perish except His Face. To Him belongs the Command, and to Him will (all) be brought back.*<sup>315</sup>

According to the American Heritage Science Dictionary, entropy is:

... often thought of as the amount of disorder in a system.

Hence, when it is said that entropy is increasing, it means that a system is moving towards greater disorder.<sup>316</sup> The elements of such a system are decaying or diminishing in some sense, and although the rate of entropy varies from one element to another, it is on the increase all of the time. Humanity, of course, goes to some lengths to slow down or reverse the effects of entropy. When we apply this idea to gold and silver, we realise that their very low rates of increase in entropy impart in them

313 *ibid.*, p. 220. The chapter from which this quote is taken is entitled "The Real Antagonist".

314 Soddy, 1931, p. 79.

315 Qur'ān 28:88.

316 El Diwany, 2003.



a stable value over long periods of time. This is indeed an essential attribute of money. Here we also notice the wisdom behind the concept of zakāh, which counters the low rate of increase of entropy in gold and silver. While this low rate of increase is useful for preserving their value, zakāh disincentivises the holding of gold and silver and thereby helps to avoid stagnation in the economy as a whole.

### The Golden Waste

In spite of the human propensity to own gold, its applications in modern times do not match the quantities mined and produced.<sup>317</sup> There are only a few companies worldwide that specialise in mining and producing gold. They use many resources and much manpower for their operations in mining, processing and refining it. After all of this, most of the refined gold finds its way beneath the earth once more, to be stored in the vaults of the world's central banks. What then is the rationale behind these operations? There is little sense in devoting so many resources and so much manpower to taking gold from one place and storing it in another, unless there is some kind of benefit to be had from it.

### 4.12 Precious Metals and the US Dollar

It is stated in the original Constitution of the United States of America that:

*No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of Attainder, ex post facto Law; or Law impairing the Obligation of Contracts, or grant any Title of Nobility.*<sup>318</sup>

Gold and silver were thereby made legal as currency, and other forms were in fact made illegal under the law. This illustrates the importance of gold and silver and their authenticity as currencies and methods of payment in the early years of the United States. However, over time, changes in the status of gold and silver as the main forms of currency have

<sup>317</sup> What is said about the gold monopoly can apply to silver as well, taking into account the difference in magnitude between them.

<sup>318</sup> Article 1, Section 10, The Constitution of the United States.

occurred there. The gold holdings required of the Federal Reserve in its capacity as America's central bank were gradually reduced following its establishment in 1913, as the issue of paper dollars increased, and we have already touched upon the restriction placed upon gold by the Roosevelt administration during the 1930s. With regard to the latter, Jones comments as follows:

*Under the infallible leadership of President Franklin Roosevelt, it was made illegal to own gold. On March 11, 1933, he issued an order forbidding banks to make gold payments. On April 5, Roosevelt ordered all citizens to surrender their gold - no person could hold more than \$100 in gold coins, except for collector's coins. He also made it unlawful to export gold for payment abroad, unless done through the Treasury. The penalty for defying Roosevelt was 10 years in prison and a \$250,000 fine.*<sup>319</sup>

Nixon's action of taking the United States off the gold exchange standard in 1971 can therefore be seen as the culmination of a long decline of the role of gold in modern monetary history. But this does not mean that the history of money has come to an end. New currencies such as the Euro have been created and, in recent years, a discussion has arisen around a proposed new currency called the "Amero" which would represent a North American currency union. The Amero is:

*... a theorized economic and monetary union of the three principal countries of North America, namely Canada, the United States, and Mexico. The implementation would probably involve the three countries giving up their current units (Canadian dollar, U.S. dollar, and Mexican peso) and adopting a new one, created specifically for this purpose. The hypothetical currency for the union is sometimes referred to as the Amero. The concept is modelled on the common European Union currency (the euro), and it is argued to be a natural extension of NAFTA and the SPP.*<sup>320</sup>

There are many reasons suggested for the creation of such a project. Firstly, it is believed that the three countries will save up to US\$3 billion in currency transaction costs annually. Secondly, it has been argued that Canada's GDP could rise by up to 33% in a 20-year period given the adoption of a single currency. Thirdly, the US dollar is already an accepted currency in the other two countries. On the other hand, among the obstacles to implementing such a

<sup>319</sup> Jones, 2008.

<sup>320</sup> Wikipedia, entry for AMERO, 2008.

project are that Canada, for example, would be forced to adopt an externally determined monetary policy and thus abandon some of its own sovereignty. The loss of sovereignty which accompanies the adoption of an international currency has been seen very clearly in the Euro crises affecting Greece and Cyprus in 2012 and 2013. The clear message of these events is that when a government gives up its right to create the money of the nation, it places itself at the mercy of bankers and financiers over whom it has little or no control.

### 4.13 The History of Currency in Islam

It is commonly narrated that the *dirhām* and *dirham* had neither a natural nor an Islamic legal weight. The American historian Alexander Del Mar has noted in this regard that there was no independent coin issued by Muslims before Abdul Malik bin Marwān. However, Muslim historians have provided much evidence that this idea is incorrect. For example, 'Umar ibn al-Khattab is reported to have added the inscriptions "Praise be to Allah", "Mohammed is the Messenger of Allah" and "There is no God but Allah" to some of the coinage circulating during his term as Caliph. 'Uthman did likewise after him. When Abdullah ibn al-Zubair took charge in Makkah, he issued rounded coins with the inscriptions "Mohammed is the Prophet of Allah" and "Allah demands Justice and Loyalty". He continued to use the same weights with minor alterations to facilitate the calculation of *zakāh*. He also made minor alterations to the weight of the *dirham* and *dīnār*. Harun Al-Rashid was the first Caliph who did not monitor the issuance of money, following which there were various alterations in the weight of money. Eventually, during the Abbasid period, money became the subject of fraud. It is said that Abdullah bin Ziad was the first to oversee the minting of debased money, and this soon spread into different regions.<sup>321</sup>

It is also true that the Muslims of the Arabian Peninsula endorsed some of the currency designs which existed prior to Islam. These included different Sassanid patterns with various weights. One type of such coin weighed 20 *qirāt* and has been called *wafī*, *baghli*, *al-aswad* or *darāhim*

321 Al-Karamaly, 1987, p. 37-58.

*baghliyah wafiah*. A second group weighed 12 *qirāt*, and a third 10 *qirāt* and this was called *al-Tabari* or *nişf baghli* (half *baghli*).

Muslim historians have also agreed that the *dirham* considered in Islamic legal matters is one of 14 *qirāt*, and that the collectors of taxes would calculate the *kharāj* by this measure. However, as this *dirham* did not exist in physical form, it was merely used as an accounting unit. When Caliph Abdul Malik decided to undertake his reform of the Muslim currency, his task was made easier by the fact that there were many companions and scholars whose writings and oral testimonies confirmed that the Prophet (s.a.w.) and his companions had adopted this accounting *dirham* as a unit of 14 *qirāt*.<sup>322</sup>

For the above reasons, Tahir Raghib Hussein, writing in *al-Nuqūd al-Islāmiyah al-'Ulah*, opposes the generally accepted belief that Abdul Malik bin Marwān was the one who decided the weight of the Islamic currency. He rejects the notion that there was no established weight for *dirhams* and *dīnārs* in Islam and argues that what Abdul Malik did was merely to reform the monetary system. This involved minting *dirhams* and *dīnārs* with Islamic scripts, so as to discourage the Muslims from dealing with other currencies and in order to establish a generally accepted weight for the *dīnār* and *dirham*. Yet the weight itself, as a *calibre*, was already agreed upon during the time of the Prophet (s.a.w.).<sup>323</sup>

Abu 'Ubaidah narrates in regard to the Islamic currency as follows:

*I have heard one Sheikh mentioning the story of dirhams in Islam and he said: 'Dirhams have been used as a form of money for ages and they were either Soud Wafiyah or Tabariyah al-Ula. Then Islam came and did not make significant changes to the existing monetary system. Then when Banu Umayyad took over rule and they wanted to issue dirhams they examined the consequences and thought that these coins will remain the same for centuries. In zakah it was ordered that in each 5 uqiya there should be 5 dirhams for zakah (and the uqiyah is 40 dirhams), so they did not want to make them all Soud Wafiyah. They did not want to make zakah measured according to the Soud Wafiyah because that would have made the zakah too little, and at the same time they did not want it to be measured according to al-Tabariyah because that would have made the zakah too*

322 Hussein, 1984, p. 121.

323 *ibid.*, p. 65.



*much for people to pay. Thus, they wanted to issue the zakāh with something that will neither harm the people, nor be against the sunnah of the Prophet (s.a.w.).*<sup>324</sup>

He continues:

*'Before, they used to measure the zakāh twice, once according to the W'afiyah and another according to the al-Tukriyah. Later they agreed to mint dirhams equal to 7 dāniqs, in between the former two kinds of dirhams, in accordance with the sunnah of the Prophet (s.a.w.), not harming the people while at the same time yielding zakāh.'*<sup>325</sup>

Al-Maqrīzi mentions that the weight of the dinār did not differ during al-Jahiliyah (the times of ignorance preceding Islam) and immediately after the coming of Islam. The weight was fixed, based upon the Roman dinār that was used in the days before the Prophet (s.a.w.), during his lifetime, and by the succeeding Caliphs. Abdul Malik bin Marwān made the Islamic dinār the same weight as the Roman dinār which weighed one mithqāl. The mithqāl was equal to 8 dāniqs or 20 qirāts or approximately 72 grains (each grain being equivalent in weight to one oat). The Prophet (s.a.w.) affirmed that this is the correct weight of the dinār and built upon it the rules of zakāh and the threshold of value for applying the Islamic punishment in cases of theft. Thus the legal weight of the dinār was established, and this was the weight that Abdul Malik bin Marwān adopted when issuing his Islamic dinār.

As for the dirham, the Persians had three kinds. The large variety weighed a mithqāl (20 qirāts), the smallest ones weighed half a mithqāl (10 qirāts), while ten of the intermediate size weighed 6 mithqāls (120 qirāts). The large dirhams were called "baghliah" or "complete blacks" as they satisfied the basic weight of the dirham which is a mithqāl of gold weighing 8 dāniqs. Dirhams continued to be issued in that weight during the Sassanid era and during the time of the Rightly-Guided and Umayyad Caliphs.

The small dirhams were called "Tabariyah dirhams" after Tabaristan where they were issued, and the intermediate ones were named "Gorakiah" after Gorkan where they were issued. When Islam was revealed and zakāh on silver was ordered, the weight of the intermediate

324 Bin Salam, 1986, p. 522.

325 *ibid.*

dirhams increased from 12 to 14 qirāts. This calculation was made by adding the number of qirāts in the large, intermediate and small dirhams and then dividing them by three. This was the legal dirham used in zakāh and the payment of ransom, and it was accepted during the time of the Prophet (s.a.w.). It was the weight adopted by Abdul Malik bin Marwān after he abandoned the Persian dirhams.

We are able to know the weights of the dinārs and dirhams so precisely because the Roman dinārs, the Kisrat dirhams, and the Islamic dinārs and dirhams, especially those issued during the time of Abdullah Bin Marwan, were similar to the weight of the Islamic legal dinār and dirham. Many examples of such coins have been found and are available for examination in museums and private collections. From these it has been established that the weight of the Islamic dinār issued by Abdul Malik bin Marwān was 4.25 grammes, similar to the gold coin "Solidus" common in Byzantium and the drachms common in Greece that were in occasional use during the early period of Islam.

Since the dinār is the mithqāl, and the mithqāl is the base of all weights, by knowing it we can also know the weight of the dirhams, dāniq, qirāts and the other units based upon them. As the mithqāl weighs 4.25 grammes and is equal to 8 dāniqs, the weight of the gold dāniq is 0.53125 grammes. Since a mithqāl equals 20 qirāts, the weight of the qirāts is 0.2125 grammes. Since the mithqāl weighs 72 grains, the weight of the oat is 0.059 grammes. Since the dirham equals 7/10 of a mithqāl, and each 10 dirhams equals 7 mithqāl, then the weight of the dirham in grammes is 2.975 grammes of silver. And since the dirham equals six dāniqs, the weight of the silver dāniq is 0.495 grammes. Since the uqiah equals 40 dirhams, its weight is 119 grammes.

This was the currency used during the time of Jahiliyah and these were its weights. Islam has confirmed this currency and approved its use as a price for transactions and as a measure for goods and services. In spite of this, Islam did not exclusively enforce the use of gold and silver as the only method of payment. Instead, it allowed people to exchange goods, benefits and efforts by any means that were approved by the parties involved. For example, it allowed buying a sword with dates, a goat with wheat, a dress with dinārs, meat with dirhams, to work a day for a kilo of dates, or to build a house for 100 dinārs. Islam thereby

permits human beings to exchange in the form that they find most suitable, whether through goods, services or money.

Saiful Azhar Rosly states that:

*The Islamic dīnār is a specific weight of gold equivalent to 4.3 grams. Returning to the gold standard can mean adopting the dinar standard or the mint standard of the early gold exchange rate system. On this ground, the Islamic dinar must take the form of commodity-backed money rather than commodity money, although the latter can be used on a limited basis involving cross-border transactions. The Islamic dinar can help control the supply of money by way of changes in gold reserves, similar to the gold standard. In this manner, the role of the central bank can be made redundant since money supply is no longer determined by size of monetary base but the amount of gold reserves ... As shari'ah serves to protect common interest, the prohibition of riba must accompany the dinar system. It is a monetary order that established the framework within which individuals conduct and settle transactions. Without an order, i.e. laws and regulations, it is impossible to see how justice can be promoted effectively.*<sup>326</sup>

### Ibn Taimīyah's Concept of Money

While defining the concept of money, it is important to mention the opinion of ibn Taimīyah who is one of the great Muslim contributors in the field. The two important functions of money, measurement of value and medium of exchange, are given special attention by ibn Taimīyah. He writes:

*Athmān (singular thaman, that is price, or that which is paid as price, money, etc.) are meant to be a measurement of objects of value (mi'yār al-amwāl) through which the quantities of objects of value (maqādir al-amawāl) are known, and they are never meant to be consumed.*<sup>327</sup>

By this statement he clearly means that the essential function of money is to measure the value of goods and to be paid in exchange for different quantities of goods. His follower, ibn al-Qayyim, states the same fact more clearly:

*Money and coins are not meant for themselves but they are meant to be used for acquiring goods (that is, they are a medium of exchange only).*<sup>328</sup>

326 Rosly, 2005, pp. 516-517.

327 Islahi, 1988, p. 140.

328 *ibid.*

Islahi states in this regard that:

*Since ibn Taimīyah considers the main function of money to be a medium of exchange, he is against trade in money because it diverts money from doing what it is meant to do. If money must be changed for money, the exchange must be completed simultaneously (ḥulūl) and without any delay (ḥulūl). In this way a man will be able to use money as a means for obtaining his requirements. If two persons exchange money for money, with one of them paying cash while the other promises to pay later, then the first person will not be able to use the promised money for transaction until he is actually paid. This means a loss of opportunity. In ibn Taimīyah's opinion this is the reason why the Prophet forbade such transactions.*<sup>329</sup>

### Ibn Taimīyah and Debasement of Currency

Islahi goes on to mention that:

*Ibn Taimīyah was distressed by the repeated debasement of the coinage which occurred in Egypt under different Mamluk sultans. He asked the Sultan to check erosion of the value of money, which caused such a disturbance in the economy.*<sup>330</sup>

Ibn Taimīyah opposed debasement in the currency and over-production of money, arguing that:

*The authority should mint the coins (other than gold and silver) according to the just value of people's transactions, without any injustice to them.*<sup>331</sup>

Islahi explains ibn Taimīyah's ideas thus:

*It appears he has some idea of the relation between quantity of money, the total volume of transactions, and price level. What he is saying is that the volume of fulūs (copper currency) should be in such a proportion to the volume of transactions that 'just prices' are ensured ... he considered it necessary that the intrinsic value of coins, i.e. the value of metal, should match their purchasing power in the market so that no one (including the ruler) could profit by either melting the coins or selling the metal or by converting metal into coins and putting them into circulation.*<sup>332</sup>

Hence ibn Taimīyah advises the ruler:

*... not to start business in money by purchasing copper and minting coins and thus doing*

329 *ibid.*, p. 140.

330 Islahi, 1988, p. 141.

331 *ibid.*, p. 141.

332 *ibid.*



business with them, neither should he invalidate the money in the people's possession and mint other kinds of coins. Rather, he should mint coins of real value without aiming at any profit so doing, and while keeping in view the public welfare (*al-maṣlaḥah al-'ammah*) he should pay the salary of workers from the public treasury (*bait al-māl*). Without doubt, trading in money means opening a great door of injustice for the people and of devouring their wealth by false pretences.<sup>333</sup>

It should be noted that some of the Mamluk Sultans were involved in the practice which ibn Taimīyah refers to as 'trading in money'. They did not depend only upon the domestic supply of copper but also imported it to mint coinage. Naturally, all of the evil consequences of that action were seen in the economy.

Ibn Taimīyah considers the trade in money to be an injustice (*zulm*) to the people and against the public interest. Islahi mentions the following points as an explanation of such an assumption:

(a) Trading in money encourages counterfeiting and people lose confidence in the currency. This results in inflation. (b) Lack of confidence in the stability of value of the currency discourages long-term contracts and results in injustice to people with fixed incomes, e.g. recipients of pensions, rentiers, etc. (c) Internal trade is hindered by frequent changes in currency and the ratio between coins. Traders not only get bad money for their merchandise, the value of their earned income also decreases. Therefore, the incentive to enter or continue in trade is destroyed. (d) Frequent debasement of currency hinders foreign trade. Good merchandise from abroad is not brought into a country in which money is debased as the merchants prefer to sell their goods in those countries where they receive sound money. (e) Precious metals leave the country, destined for where they can command a higher value.<sup>334</sup>

Ibn al-Qayyim, the student of ibn Taimīyah, confirmed his views regarding the issue of currency trade in *I'lām al-Muwaqīn*, stating that *dirār* and *dirham* are prices of goods and the price is the calibre which evaluates other assets. In this sense, it should be a fixed and specified scale of measurement.<sup>335</sup> It should not increase or decrease because if the yardstick of value itself fluctuates up and down, the proper evaluation of goods and services will be impossible. This in turn will

333 *ibid.*

334 Islahi, 1988, p. 142.

335 Babily, 1985, p. 119.

lead to a corruption of the transaction mechanism within society and much resulting injustice.

### Bad Money Drives out Good

The idea that bad money drives out good, which is referred to as Gresham's Law<sup>336</sup> and attributed to Sir Thomas Gresham, an advisor to Queen Elizabeth I of England, was in fact mentioned much earlier by ibn Taimīyah. Islahi writes in this regard that:

*The law simply states that where two coins have the same nominal value but are made from metal of unequal value, the cheaper will tend to drive the other out of circulation. The good money is hoarded, melted or exported – whichever is more beneficial. Especially under bi-metallicism, when the mint ratio differs from the market ratio, Gresham's Law operates internationally and good money migrates towards those countries where it is more valuable. This happened in America during the period from 1792 to 1834, when the United States maintained an exchange ratio between silver and gold of 15 to 1, while the ratio of European countries ranged from 15.5 to 1 to 16.6 to 1. The result was that gold flowed out and silver flowed into the United States.*<sup>337</sup>

Ibn Taimīyah's description of the law is as follows:

*If the ruler cancels the use of a certain coin and mints another kind of money for the people, he will spoil the riches (*amwāl*) which they possess, by decreasing their value as the old coins will now become merely a commodity. He will do injustice to them by depriving them of the higher values originally owned by them. Moreover, if the intrinsic value of coins are different it will become a source of profit for the wicked to collect the small (bad) coins and exchange them (for good money) and then they will take them to another country ...*<sup>338</sup>

### Al-Maqrīzī's Concept of Money

In his discussion of money in Islam, al-Maqrīzī<sup>339</sup> argues that in the past money was divided into two kinds: al-*Soūd al-Wafiyah* (also known as "Baghliyah") and al-*Tabariyah al-'Outoq*. People used these in all transactions, and it is noted that the Arabs never used anything other

336 Chown, 1994, p. 16.

337 Islahi, 1988, p. 143.

338 *ibid.*, p. 143.

339 Allouche, 1994.

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<sup>337</sup> Islahi, 1988, p. 143.

<sup>338</sup> *ibid.*, p. 143.

<sup>339</sup> Allouche, 1994.



than gold and silver as currency. Furthermore, the coins used to come from other kingdoms such as Rome and Persia. Al-Wafiyah was the Persian dirham, and each seven of these were equal to ten al-Jawaz dirhams. The weight of the gold dinār and silver dirham prior to Islam were double what they became following the arrival of Islam. The silver mithqāl was called dirham and the gold mithqāl was called dinār. Each 10 dirhams weighed 6 mithqāl and each mithqāl weighed 72 grains. It should be noted that the mithqāl has been the same during Jahliyah and Islam. When the message of Islam was revealed to the Prophet (s.a.w.), he said: "The weight unit is the one used by the people of Makkah."<sup>340</sup>

### Al-Fulūs: Copper Currency

It is clear that copper enjoys some properties which are similar to, though not as desirable as, those of gold and silver. Hence the value of copper has generally been substantially below that of silver in most societies. "Al-fulūs" was a name used in Egypt to describe smaller currency, typically minted from copper. These coins were introduced there as early as the fourteenth century as a supplement to silver coins which were becoming relatively scarce. Al-Maqrīzi discusses the general debasement of the Egyptian money supply by means of fulūs and the so-called "dirham of account". In *Al-Ighāthah*, he identifies over-issuance of both of these as a cause of inflation. This cause, he argues, was quite distinct from that which had caused previous increases in prices, among them crop failures and the mismanagement of Egypt's resources under the later Mamluk rulers.<sup>341</sup> In making this analysis, Al-Maqrīzi identified "real" and "monetary" factors in a way that would be familiar to modern economists.

### 4.14 The Assurance of Intrinsic Value

The condition for money to have intrinsic value is a safeguard for the owner of the currency, which guarantees him a minimum value in the event that the currency loses its authority as a circulating medium. It protects the holder from the monopolistic powers of the producer of

<sup>340</sup> Abu Dawūd, Book of Sales, No. 3340.

<sup>341</sup> Allouche, 1994.

fiduciary and fiat money, denying such a producer the ability to abolish, freeze, or change its value. In *Money Meltdown*, Judy Shelton mentions that the English common law suggests that metal provides the "most proper" standard for guaranteeing the value of money. She quotes W. Blackstone's *Commentaries* of the early 1770's:

*Money is a universal medium, or common standard, by comparison with which the value of all merchandise may be ascertained: ... a sign, which represents the respective values of all commodities. Metals are well calculated for this sign, because they are durable and are capable of many subdivisions: and a precious metal is still better calculated for this purpose, because it is the most portable. A metal is also the most proper for a common measure, because it can easily be reduced to the same standard in all nations: and every particular nation fixes on it its own impression, that the weight and standard (wherein consists the intrinsic value) may both be known by inspection only.*<sup>342</sup>

Shelton suggests that metal (mainly gold and silver) are most suitable as a measure of monetary value. The international legal prohibition of the use of gold and silver as currencies clarifies the power aspect in relation to governments and their control of public assets. Shelton quotes Paul and Lehman regarding this matter:

*Gold money is always rejected by those who advocate significant government intervention in the economy. Gold holds in check the government's tendency to accumulate power over the economy. Paper money is a device by which the unpopular programs of government intervention, whether civilian or military, foreign or domestic, can be financed without the tax increases that would surely precipitate massive resistance by the people. Monetizing massive debt is more complex and therefore more politically acceptable, but it is just as harmful, in fact more harmful, than if the people were taxed directly. This monetising of debt is literally a hidden tax. It is unevenly distributed throughout the population, one segment paying much more than another. It is equivalent to a regressive tax, forcing the working poor to suffer more than the speculating rich.*<sup>343</sup>

### 4.15 Islamic Banks

Banking is a developed business of money lending which is based upon the principle of charging usury on loans regardless of the purpose

<sup>342</sup> Shelton, 1994, p. 218.

<sup>343</sup> Shelton, 1994, p. 263.



of those loans. This practice has been the prime mover behind the advent of money creation. The huge profits to be made from creating money for subsequent lending at interest, has obligated governments in all countries to place banking organisations under one or more regulatory systems supervised by the state or its agencies. Included among these is the central bank, the "bank of banks". Banking thus became an institution controlling one of the most powerful instruments in human history. The political nature of this institution has gone on to dominate the international monetary system and much international politics besides. Since 1971 when President Nixon abolished the right to redeem US dollars in gold, all monies of the world, including the Muslim world, became unbacked fiat money.

The controversy surrounding fiat money from the perspective of shari'ah is still ongoing, despite the existence of two well known fatāwa which I shall address shortly. There remains a strong feeling in the Muslim World that conventional banking activities are usurious, and this has fuelled a constant demand for alternatives among Muslims, in particular some form of Islamic investment product. The financial market throughout the Muslim world has responded by creating many Islamic investment companies, such as the al-Rian and al-Shareef companies in Egypt. In the mid-1970's, while the demand for Islamic financial products was still strong, the idea of Islamic banking emerged from Pakistan and then spread to the Middle East. The conventional banks operating there could not ignore the demand for Islamic financial products, as competitors who did offer such services began to take an increasing share of the market. Today, opinions about Islamic banking remain split between approval and scepticism, and some analysis of the arguments of both sides is therefore in order.

A conventional banker's appraisal of Islamic banking was given by Eddie George, a former governor of the Bank of England, while addressing the Arab Bankers Association in March 1994:

*I should like at this point to touch on another apparent source of misunderstanding and mistrust - our attitude towards what we tend to call Islamic banking. Now I know too that there is no single definition of what constitutes Islamic banking. But as I understand it, the basic principle is that making money out of money is contrary*

*Islamic law, that wealth should accumulate from participation in trade and the ownership of real assets.<sup>344</sup>*

While addressing the paradox of contemporary Islamic finance, Mahmoud El-Gamal mentions the comments of the Saleh Kamel, founder of the Dallah al-Baraka group, during his acceptance speech for the Islamic Development Bank prize in Islamic Banking:

*I tell you, truthfully and without pretence ... that we went beyond choosing the 'bank' label [in Islamic banking], to the point of adopting its central essence ... Consequently, we failed to give our financial institutions any characteristics beyond simple financial intermediation. This is accomplished through Islamic banks' favourite investment modes that are essentially a hybrid between loans and investment; which hybrid carries most of the characteristics of usurious loans...<sup>345</sup>*

Muhammad Saleem, an international banker by training and the co-founder and a former President and CEO of the Park Avenue Bank in New York, states that:

*Islamic banks invest only a tiny portion - less than 2% - of their portfolio in mudaraba and musharaka transactions which are based on the concept of profit and loss sharing; the balance of 98% of assets of Islamic banks consist of murabaha and ijara (leasing) modes of finance, which in the view of many carry interest concealed in Islamic garb. In other words Islamic banks go to great lengths to shun risk - something they are supposed to share ...<sup>346</sup>*

Saleem adds that:

*Western owned Islamic banks are often able to attract deposits at cheaper rates and with less marketing effort than their purely locally owned Islamic banks. Second, western owned banks like Citibank and HSBC are able to get mandates to lead manage the larger and more sophisticated transactions, thus earning the lion's share of the fees as well as getting good public relations converge. And from the client's view - both depositors and borrowers - they can have their cake and eat it too, because in their scheme of things they are dealing with an Islamic bank and the fact that it is a large Western international bank provides them with security and access to sophisticated services. So if the object of the proponents of Islamic banking was to escape from the*

<sup>344</sup> Al-Omar and Abdul Haq, 2007, p. 35.

<sup>345</sup> El-Gamal, 2004, p. 1.

<sup>346</sup> Saleem, 2005, p. 28.



*Western owned banks, they clearly failed in doing so ... If on the other hand Islamic bankers were truly doing Islamic banking – sharing risks and partnering with their clients on a truly profit and loss sharing basis – Western owned banks would have not touched Islamic banks, would have avoided entering this market, because they too would have found it risky, and their central banks and banks examiners would have frowned upon that business. So the fact that dozens of Western banks have set up Islamic banking windows or subsidiaries to engage in Islamic banking has only one message for shari'ah scholars and proponents of Islamic banking: we beat you at your own game – and in your own backyard.<sup>347</sup>*

Munawar Iqbal and Philip Molyneux state that:

*... most Islamic banks have their own shari'ah board. Questions have been raised about the autonomy and powers of these boards. Shari'ah boards of different banks could issue different rulings on similar practices which may raise doubts in the minds of clients.<sup>348</sup>*

According to Vogel and Hayes:

*The most frequently cited explanation is the fact that an Islamic bank has no central bank discount window to turn to when it needs quick liquidity, and no deposit insurance program to reassure savers and help prevent panic bank runs.<sup>349</sup>*

Still today, Islamic banking represents a minor part of the global international banking system. Islamic banks compete with other banks but without protection, and therefore suffer a commercial disadvantage. But perhaps most of important of all from the client perspective, the products offered by Islamic banks are mainly based upon transactions such as murābaha which have the look and feel of an interest-based loan, and which do not provide the kinds of commercial and social service that Muslim communities usually require.

#### 4.16 Two Opinions on Fiat Money

Two important opinions which consider that fiduciary fiat money is legitimate from the Islamic point of view are discussed here. Each takes

347 Saleem, 2005, pp. 50-51.

348 Iqbal and Molyneux, 2005, p. 109.

349 Vogel and Hayes, 2006, pp. 7-8.

a different approach, but their main ideas are very similar. Refuting these opinions may add more support to the conclusion that fiduciary fiat money does not fit with the Islamic concept of money as expounded in this chapter.

#### The First Opinion

This opinion was in the form of a fatwā endorsing the conclusion of a piece of academic research that was forwarded to The Dual Committee for Scientific Research and Fatwā: The Committee of Eminent Scholars. It was published in the first issue of the Islamic Research Magazine in 1973, two years after President Nixon had abolished the link to gold for the US Dollar. It would be reasonable to conclude that it may have been targeted at the legitimatisation of fiduciary money. Its conclusion was as follows:

*The Institute of High Scholars decides in majority that: paper money is considered a separate currency, similar to gold and silver and other forms of currency, and its type changes according to the authority issuing it. In that sense for example, Saudi money is one type and American money is another, and so on. Each paper money is a separate type of money and based upon this view, the following legal rules apply:*

*First, rihā is applicable on this kind of money just as with gold, silver and other currencies such as fulūs which implies the following: a) it is not legal to sell these currencies using the other types if the transaction is postponed ... b) it is not legal to sell one of these currencies using another type from the same currency. So for example, you cannot sell 10 Saudi paper rials with 11 paper ones; c) It is legal to sell some of this currency for another type if the transaction is made on the spot (hand to hand). So it is legal to sell Syrian lira or Saudi rial (whether paper or silver) for American dollars in better more or less only if this is concluded hand to hand. The same applies to selling Saudi silver rial with 3 Saudi paper rials ... only if concluded hand to hand ...*

*Second, zakāh has to be paid when one type of this money reaches the threshold<sup>350</sup> level equivalent to gold and silver, or when the different types of this money owned by the same person reaches that threshold.*

*Third, it can be used as capital for companies and investment ...<sup>351</sup>*

350 When used in a financial context, the Arabic word 'nisāb' should be translated as 'threshold'.

351 Huḳm al-Awrāq al-Naqdiyah, 1972, pp. 209-210.

My refutation of this fatwā is as follows. The paper begins by defining money and claims that economists have given three features which, if found in any particular material, qualify it to be money. These three features are a medium of exchange, a unit for measuring value, and a unit for storing wealth. This implies that money can be anything that is acceptable to people regardless of its nature or condition. Some Muslim companions and scholars seem to support such a definition. For example, in *Al-Mudawana al-Kubra*, 'Umar ibn al-Khattab is reported to have stated that:

*Assuming that people commonly agreed to use leather as money, I would have not agreed for it to be sold by gold and silver in a deferred payment.*

The fatwā also referred to the following statement of ibn Taimīyah:

*As for dirham and dinār, there is no boundary for them, natural or Islamic, but rather it should be decided on by custom and this is because the fulfilment of their objective depends on the expectation that they will be a calibre of value for use in exchange. Dirhams and dinārs are not demanded for their own sake, but are used as an instrument of exchange. They are considered as prices, and this function excludes other types of wealth. It is an abstract instrument whose objective does not depend on its shape or material. This instrument would achieve its objective, regardless of the material from which it is made.*<sup>352</sup>

In its introduction the paper also states that:

*Based on this, we could say that money is something relative whether this is a result of a ruler's authority or a widespread custom. And it might be said that money is not something relative as a result of the authority of the issuer, but should be considered money based upon its intrinsic value or full cover, taking into consideration its issuing authority and common custom ...*<sup>353</sup>

Referring to three features of money commonly identified by economists, the paper uses the word "mādah" (meaning substance) which implies that it should have a physical existence of some kind, yet as has now been established, most money does not have a physical existence in modern times.

Moreover, the three features mentioned are not really sufficient as they

<sup>352</sup> *ibid.*, p. 194.

<sup>353</sup> *ibid.*

ignore another function of money, namely that it acts as a standard of deferred payment.

The fatwā mentions that money is "anything" that enjoys public acceptance, whereas it should be made clear that paper money never did enjoy such acceptance. Rather, it was forced upon the people by governments through the device of legal tender. Furthermore, by prohibiting the use of gold and silver as currency, modern monetary arrangements are directly contradicting Islamic teachings. The idea that if the general public were to accept leather as currency, then so too would the scholars, cannot be used to justify the use of paper money, because while leather has intrinsic value, paper money does not. In order to build an argument in favour of paper money based upon the statement of 'Umar, the committee would need to show that his statement implies an acceptance of the principle of using money that has no intrinsic value. It is not at all clear that this is the point of principle underlying 'Umar's statement.

The statement of ibn Taimīyah is likewise misunderstood. The context of his comments is a discussion on the linguistic boundaries for naming things. When ibn Taimīyah refers to the dirham and dinār, he is actually referring to the exact weight of silver and gold which invokes the use of these names. If society were to decide to use a gold coin weighing 10 grammes, or a silver coin weighing 50 grammes, this in itself would not be contravention of the Islamic law, as the principle at stake is the use of gold and silver, not the weights of the minted coins themselves.

The paper as a whole offers and analyses evidence in a highly selective manner. The subject of money and its history is rich and deep, yet only four opinions on the use of paper money have been promoted and only some parts of these opinions have been refuted. A fifth opinion which considers paper money as an independent form of money is then introduced. Such a discussion is not a suitable basis on which to build a conclusion on such an important issue. The Islamic methodology should instead be to start from the text of the Qur'ān and sunnah, with reference to a wide selection of Islamic scholars. In particular, the significance of the fact that the Prophet (s.a.w.) used gold and silver as money, and regulated their use in many instances, needs to be accepted and understood.



The main points of refutation of this fatwā are as follows:

- the incorrect assumption that there are no Qur'ānic texts or ḥadīth referring to money, ignoring all those that have been mentioned earlier in this chapter;
- the incorrect assumption that fiduciary fiat money enjoys people's consent and acceptance, which ignores the historical objections of numerous important individuals including Cobbett, Soddy, and Jefferson;
- a failure to recognise that fiduciary fiat money depends for its circulation on enforcement as legal tender, and on the concurrent prohibition of using gold and silver as currency;
- a failure to recognise that the existence of fiduciary fiat money relies on usury and on the false claim that its value depends on the productive output of the nation which issues it;
- a failure to recognise the list of injustices which occur as a result of using fiduciary fiat money, including inflation, monopolisation of business, and control of money itself;<sup>354</sup>
- the statement that every fiat currency is a different independent currency similar to gold and silver is rather inadequate because most modern forms of money are created from nothing as the result of a loan transaction. The ratio of exchange between them is largely a reflection of the total money supply of both currencies, the relative interest rates that apply to them, current trade balances, and expected changes in these quantities. In contrast, the ratio of gold and silver prices in an Islamic economy would depend more upon underlying processes in the real economy, mainly the production and employment of these metals in their various applications. The exchange of gold and silver would occur either for the purpose of currency exchange (al-Ṣarf<sup>355</sup>) or

occasionally in arbitraging<sup>356</sup> the market price of gold and silver bullion.<sup>357</sup>

The eminent scholar Abdullah bin Suliman bin Manie' was one of the four members of the committee which approved the conclusion of the research supporting this fatwā. In the introduction to a book authored by him with the title *al-Waraq al-Naqdi* (Paper Money), published in 1984, he has stated that paper money was first issued approximately 15 years previously. If not an editing error, a statement of this kind would certainly call into question the credentials of this particular publication.

### The Second Opinion

This was a piece of academic research entitled: "The Impact of the 'Urf Custom on the Legal Verdicts and the Ahkām Judgements in Islamic Law", which was presented by 'Essam Ghareeb for a Master of Philosophy degree at the Department of Theology of the University of Birmingham in 1997. My comments and refutation of this research are as follows.

The researcher chose to use the word "custom" as the meaning of the word 'urf although this differs from the Qur'ānic meaning as he confirms in Chapter 2 of his research:

*'Urf and its derivative, ma'ruf, are mentioned in the Qur'ān and it is the latter which is mentioned more frequently. Ma'ruf, which literally means 'known', is quoted in the Qur'ānic context of that which is good, while its opposite, munkar (forbidden), is quoted within the context of evil. It is mainly in this sense that 'urf and ma'ruf seem to have been used in the Qur'ān. The commentators have generally interpreted ma'ruf in the Qur'ān as denoting faith in God and His Messenger, and adherence to God's injunctions.<sup>358</sup>*

Presumably, the researcher's reference to the meaning of ma'ruf is to the only Qur'ānic verse which mentions the word:

*Hold to forgiveness, command what is right, but turn away from the ignorant.<sup>359</sup>*

<sup>356</sup> Arbitraging activity should be regulated carefully to avoid excessive volatility and market manipulation.

<sup>357</sup> In this regard, ibn al-Qayyim argues that an era in which money is widely bought and sold will be one of financial corruption.

<sup>358</sup> Ghareeb, 1997, p. 17.

<sup>359</sup> Qur'ān 7:199.

<sup>354</sup> Ghanem, 1990.

<sup>355</sup> See the discussion of Transaction Map Theory in Chapter 6.



'Urf is translated here as "what is right". Al-Qurtubi says in his exegesis that "al-'urf" means what is right and good or "ma'rūf" in Arabic.<sup>360</sup> The same has been confirmed by Abdul Karim Zidān in *al-Wajeez fi Usul al-Fiqh*.<sup>361</sup>

Nevertheless, 'urf does also mean convention or custom in addition to the above. The explanation for this is that Islam came to change the existing society, one which had some virtues such as generosity and bravery as well as some bad habits such as drinking, gambling, and so on. Islam changed the bad habits while keeping the virtues, and that is why convention or custom is a source of shari'ah.

Ibn Hisham mentions the alliance that the Quraish formed to support those who had been treated unjustly in Makkah. This alliance was called The Virtue Alliance ("Hizb al-Fudūl"). Al-Humaidi ibn Sufian narrated from Abdullah from Muhammad and Abdul Rahmān, the sons of Abu-Bakr, that they said that the Prophet (s.a.w.) said of this alliance:

*I have witnessed in the house of Abdullah bin Gad'an an alliance that if I was invited to in Islam I would have answered. They allied to bring justice to those who have been done an injustice.*<sup>362</sup>

Here the Prophet (s.a.w.) approved certain virtues to which the society was accustomed and which did not contradict any Islamic principles. This is what is meant by considering al-'urf<sup>363</sup> to be a source of shari'ah.

In his final chapter, the researcher applies his claim (that Islamic judgements based on al-'urf can change as the 'urf itself changes) to the subject of money. Unfortunately, this application is not ideal for two main reasons. Firstly, there are substantial differences between precious metal money and modern monetary aggregates, in particular due to the fact that usury is nowadays heavily embodied into the latter. Secondly, the legitimacy of commodity money or modern forms of money in both shari'ah and man-made law does not simply depend on

'urf as is claimed, because the issue of money is one that relates to all of humanity in all times and places.

In addition to these two main reasons, the position of 'urf in the science of fiqh is divided into good 'urf and bad 'urf. As an example of the former, Wahba al-Zuhayli gives the payment of a dowry to the wife as a condition of marriage. Another example is paying extra money to someone in return for a service. As for the bad 'urf, al-Zuhayli says that it is everything agreed upon by people but which is considered wrong, such as ribā, serving alcohol at parties, dancing at weddings and so on.<sup>364</sup> Abdul Wahab Khallaf says that the good 'urf is the one that is agreed upon among people and which does not disagree with a legal rule in Islam. As for the bad 'urf, he says that it is one that is agreed upon among people and which breaks an Islamic legal rule.<sup>365</sup> Zidan mentions likewise about good 'urf and bad 'urf.<sup>366</sup>

#### 4.17 Concluding Thoughts on the Islamic Monetary System

Although gold and silver should be allowed to function as money in an Islamic economy, we have already seen that the potential exists for other types of money to be adopted according to the needs of the economic situation and the context of the prevailing international monetary arrangements. Hence, new monetary media could be adopted from among monies less valuable than silver, or more valuable than gold. The condition for the adoption of these new monies is that they should each have an intrinsic value based on their physical properties, which should function in a similar way to the properties of gold and silver, and should be produced by factors of production as with any other physical substance.<sup>367</sup> Minting of gold and silver must be allowed at all times, by both the public and the private sectors, under strict rules of quality assurance. Gold and silver currency will thereby dominate over other currencies, and act as a calibre of value, as they are meant to. Under these conditions, people will always have the choice to return

360 al-Qurtubi, 1952, Vol. 7, p. 346.

361 Zidān, 1987, p. 254.

362 Hizb al-Fudūl, 2008.

363 Hadith Ṣaḥīḥ narrated by Al-Harith bin Abdullah bin Abi Ussama al-Tamīmi.

364 Al-Zuhayli, 1999, p. 98.

365 Khallaf, 1956, p. 89.

366 Zidan, 1987, p. 253.

367 Al-Nabhani, 1990, pp. 263-268.



to gold and silver currency, if for some reason other monies should fail them.

This principle of money expansion, depending as it does on real factors or production, contrasts starkly with the modern practice of money creation in the fiduciary fiat money system. In an open market, free competition would direct the use of the factors of production to either produce capital equipment (when their prices are increasing) or to produce gold or silver (when the price of capital equipment is falling). This arbitrage process among the factors of production in a free market would help to guarantee price stability.<sup>368</sup>

The money production function in Islam also differs from the monometallic and bimetallic systems which were based upon one or both of gold and silver currency in previous centuries. A key requirement in any Islamic system is that if currencies are to be exchanged for one another, then such exchanges should occur at a free market rate. In other words, government must not interfere in the valuation of such exchanges. In this way arbitrage opportunities between gold and silver are kept to a minimum, sudden international flows of currency become very rare, and commodity producers can quickly respond to changing demands in the market place for money.

Today's international monetary and financial system does not meet the requirements for an Islamic system. However, any process of adapting the domestic system of a Muslim country in order to comply with basic shari'ah requirements would necessarily involve a number of transitional steps. In broad terms, these would be as follows:

- a change in the definition of money and an according adjustment of the monetary system;
- a total prohibition of usury in all transactions;
- enforcement of the rulings on zakāh.

These three changes would obviously take considerable time and a substantial administrative effort on the part of the public authorities, including the passage of considerable amounts of new legislation. During this time, it would be essential that fiqh rulings relating to

<sup>368</sup> The role of *zakāh* on gold and silver complements this process.

matters of transition<sup>369</sup> should be adopted in order to avoid what might otherwise become terminal economic or political difficulties.

The choice of monetary unit in Islam should be seen as an issue upon which shari'ah has ruled. This choice is not one that can be left to personal opinion or be decided by custom. Neither is it to be decided based upon pragmatic considerations of current economic or financial circumstances. Instead, Islam has appointed a form of money, based upon gold and silver, so that society can have a stable unit by which to express the worth of goods and services.

<sup>369</sup> See "The Transition Period" in Section 2.2.

## 5 AZ-ZAKĀH

### 5.1 Introduction

It has been agreed by the Muslim nation throughout their history that zakāh is one of the five pillars of Islam. It is known as a financial act of worship. From the early Makkan period of revelation, zakāh was mentioned in the Qur'ān and related to prayer as a condition of belief. At that time, its meaning was general without any specification or detailed applications. As the Arabs understood it, zakāh meant purification, and the Qur'ān came to confirm this meaning and to encourage the value of giving charity to the poor and needy as a condition of success:

*Those who spend their wealth for increase in self-purification, and have in their minds no favour from anyone for which a reward is expected in return, but only the desire to seek for the countenance of their Lord Most High; and soon will they attain (complete) satisfaction.*<sup>370</sup>

Later, in particular after the emigration to Medina when the structure of Muslim society started to take shape, the general concept of zakāh progressed to become one of the main foundations of the social and economic structure and the philanthropic nature of Muslim society.

### 5.2 Spending

In the beginning of the Qur'ān, Allah (s.w.t.) refers to the group who would be guided by the Qur'ān as those who fear Allah (s.w.t.), and one of the characteristics of the members of this group is spending out of what Allah (s.w.t.) has provided for them.

*A. L. M. This is the Book; in it is guidance sure, without doubt, to those who fear Allah; who believe in the Unseen, are steadfast in prayer, and spend out of what We have provided for them.*<sup>371</sup>

<sup>370</sup> Qur'ān 92:18-21.

<sup>371</sup> Qur'ān 2:1-3.



The word "spend" in this verse means spending in general, not spending all that one has, rather some of what has been provided. Elsewhere in the Qur'ān the balance of spending is made clear:

*Make not thy hand tied (like a niggard's) to thy neck, nor stretch it forth to its utmost reach, so that thou become blameworthy and destitute.*<sup>372</sup>

The Qur'ān also warns of the devil's threat of poverty:

*Satan threatens you with poverty and bids you to conduct unseemly. Allah promiseth you His forgiveness and bounties. And Allah careth for all and He knoweth all things.*<sup>373</sup>

The overall message is that a Muslim should be a giving person, generous, not fearing poverty and having trust in Allah (s.w.t.), the Sustainer and Provider. By being so, he or she will be granted an easy life and vice-versa.

*So he who gives (in charity) and fears (Allah), and (in all sincerity) testifies to the Best, We will indeed make smooth for him the path to Ease, But he who is a greedy miser and thinks himself self-sufficient, and gives the lie to the Best, We will indeed make smooth for him the path to misery, Nor will his wealth profit him when he falls headlong (into the Pit).*<sup>374</sup>

In the sunnah of the Prophet (s.a.w.) there is also much that encourages spending on a good cause and in a good manner. Spending does not only include ṣadaqah and zakāh, but it does have to be for a good cause, for example spending on one's own family:

*Asma' bint Abū Bakr narrated that the Prophet (s.a.w.) said: Do not withhold your money, (for if you did so) Allah would withhold His blessings from you.*<sup>375</sup>

She also narrated that the Prophet (s.a.w.) said:

*Do not shut your purse, otherwise Allah too will withhold His blessings from you. Spend (in Allah's cause) as much as you can afford.*<sup>376</sup>

Abū Hurā'irah narrated:

*The Prophet said, 'Every day two angels come down from Heaven and one of them*

372 Qur'ān 17:29.

373 Qur'ān 2:268.

374 Qur'ān 92:5-11.

375 Al-Bukhārī, *op. cit.*, Vol. 2, Book 24, No. 513.

376 *ibid.*, No. 515.

*says, 'O Allah! Compensate every person who spends in Your Cause', and the other angel says, 'O Allah! Destroy every miser'.*<sup>377</sup>

Abū bin 'Abdullah bin Al Talha narrated that:

*I heard Anas bin Malik saying, 'Abū Talha had more property of date-palm tree gardens than any other amongst the Ansar in Medina and the most beloved of them to him was Bairuha garden, and it was in front of the Mosque of the Prophet. Allah's Apostle used to go there and used to drink its nice water.' Anas added, 'When these verses were revealed: "By no means shall ye attain righteousness unless ye spend (in charity) of that which ye love" (53) Abū Talha said to Allah's Apostle "O Allah's Apostle! Allah, the Blessed, the Superior says: "By no means shall you attain righteousness, unless you spend of that which you love". And no doubt, Bairuha' garden is the most beloved to me of all my property. So I want to give it in charity in Allah's Cause. I expect its reward from Allah. O Allah's Apostle! Spend it where Allah makes you think it feasible". On that Allah's Apostle said, "Bravo! It is useful property. I have heard what you have said (O Abū Talha), and I think it would be proper if you gave it to your kith and kin". Abū Talha said, "I will do so, O Allah's Apostle". Then Abū Talha distributed that garden amongst his relatives and his cousins'.<sup>379</sup>*

### 53 Ṣadaqah and Zakāh

We have seen that the Qur'ān in general encourages Muslims to spend within reason, which could be interpreted as spending on one's family or oneself, or as spending on others which is considered as "ṣadaqah". The Qur'ān has distinguished between two types of charity, one being general and voluntary, and which can be given to anyone at any time or any sum, and another which is obligatory and is a specific sum to be paid at a specific time to a specific group of people for specific purposes. The latter is termed zakāh, however both these forms of charity are sometimes referred to as ṣadaqah.

In summary, the Qur'ān mentions spending in three categories:

- zakāh, a specific sum for specific people or purposes;
- ṣadaqah, general charity;
- general spending.

377 *ibid.*, No. 522.

378 Qur'ān 3:92.

379 *ibid.*, No. 540.



### 5.4 Zakāh and Tax

In many previous societies around the world, one of the privileges enjoyed by kings was to take taxation from the people to fund their own expenses. Later, taxation took on an important role in financing public projects which could not be financed by individuals or organisations acting on their own. More recently, in many nations, taxation has become an important instrument for financing the state budget. Different political parties have different philosophies on taxation and on the way in which tax revenue should be used. There are many types of taxation, and each one of them is used differently, but in the final analysis the levying of tax is a kind of social contract in which the people agree to pay tax and the state agrees to deploy the amounts raised for their benefit, either directly or indirectly.

There are some similarities between taxation and zakāh, but the main difference between them is that zakāh is prescribed by Allah (s.w.t.) with regard to its incidence, its amount, its timing and the way in which it should be spent. One of the main purposes of zakāh is to redistribute wealth from rich to poor, and this is not the case for all taxes. The Prophet (s.a.w.) instructed Mu'ādh ibn Jabal in his mission to Yemen as follows:

*... inform them that Allah has ordered them to pay ṣadaqah to be taken from the rich and given to the poor.*<sup>380</sup>

### 5.5 Zakāh and the Divine Factor

When Western philosophers and economists discussed the factors of production they tended to ignore the Divine factor, or treat it as a constant element that had no impact on their calculations. In reality, any production operation depends on two main factors. These are the human factor, which can be divided into human intellect and human physical effort, and the non-human factor, which is typically divided into land and capital, and includes money, minerals, water, wind, energy and other natural resources.

In fact, these inputs which we consume either by direct consumption or

380 Al-Bukhārī, *op.cit.*, Chapter 29, Book of Zakāh.

through production processes are all provided by Allah (s.w.t.). From this point of view, it is quite fair to give a portion of annual production as a Divine share, to be defined by the Divine entity, and to be considered as zakāh. Although the Divine factor is in everything and it is enormous compared to the human factor, which is actually Divinely-provided as well, zakāh is nevertheless a small percentage and its payment has more impact on the payor as an act of worship than as a charge to his or her material wealth.

The idea of a Divine share is not foreign to Islam. The idea that worldly produce is a blessing from the Creator is mentioned in more than one place:

*See ye the seed that you sow in the ground? Is it ye that cause it to grow or are We the Cause? Were it Our Will, We could make it broken orts, and ye would be left in utterment ...*<sup>381</sup>

After referring to crops as a product of Allah (s.w.t.), the following verse reminds Muslims to pay the required dues:

*Is it He who produceth gardens with trellises and without, and dates, and tilth with produce of all kinds, and olives and pomegranates, similar (in kind) and different (in variety): Eat of their fruit in their season, but render the dues that are proper on the day that the harvest is gathered. But waste not by excess: for Allah Loveth not the wasteful.*<sup>382</sup>

### 5.6 Zakāh and Wealth Redistribution

In the Qur'ān it is established that zakāh is a specific amount of the wealth of richer Muslims, and that this portion in fact belongs to the poor and the needy at a specific time:

*And those in whose wealth is a recognised right for the (needy) who asks and him who is deprived (for some reason from asking).*<sup>383</sup>

*And in their wealth there is a due share for the beggar and the deprived.*<sup>384</sup>

381 Qur'ān 56:63-65.

382 Qur'ān 6:141.

383 Qur'ān 70:24-25.

384 Qur'ān 51:19.



In the ḥadīth Abu Hurāirah narrated that the Prophet (s.a.w.) said:

*If one gives in charity what equals one date-fruit from honestly-earned money, and Allah accepts only honestly earned money. Allah takes it in His right (hand) and then enlarges its reward for that person (who has given it), as anyone of you brings up his baby horse, so much that it becomes as big as a mountain.*<sup>385</sup>

Ibn Mas'ud narrated that:

*I heard the Prophet saying, 'There is no envy except in two: a person whom Allah has given wealth and he spends it in the right way, and a person whom Allah has given wisdom (i.e. religious knowledge) and he gives his decisions accordingly and teaches it to the others.'*<sup>386</sup>

Abu Masud al-Ansar narrated:

*Whenever Allah's Apostle (s.a.w.) ordered us to give in charity, we used to go to the market and work as porters and get a mudd (a special measure of grain) and then give it in charity. (Those were the days of poverty) and today some of us have one hundred thousand.*<sup>387</sup>

Narrated 'Adi bin Hatim heard the Prophet (s.a.w.) saying:

*Save yourself from Hell-fire even by giving half a date-fruit in charity.*<sup>388</sup>

Abu Hurāirah narrated that:

*A man came to the Prophet and asked, 'O Allah's Apostle! Which charity is the most superior in reward?' He replied, 'The charity which you practice while you are healthy, niggardly and afraid of poverty and wish to become wealthy. Do not delay it to the time of approaching death and then say, "Give so much to such and such, and so much to such and such" [when] it has already belonged to such and such (as it is too late).'*<sup>389</sup>

'Aisha narrated that:

*Some of the wives of the Prophet asked him, 'Who amongst us will be the first to follow you (i.e. die after you)?' He said, 'Whoever has the longest hand'. So they started measuring their hands with a stick and Sauda's hand turned out to be the longest.*

385 Al-Bukhārī op. cit., Vol 2, Book 24, No. 491.

386 *ibid.*, No. 490.

387 *ibid.*, No. 497.

388 *ibid.*, No. 498.

389 *ibid.*, No. 500.

*When Zainab bint Jahsh died first of all in the caliphate of 'Umar, we came to know that the long hand was a symbol of practicing charity, so she was the first to follow the Prophet and she used to love to practice charity. (Sauda died later in the caliphate of Muawiyah).*<sup>390</sup>

The wisdom of Allah (s.w.t.), in distributing wealth among the people in such a way that it is first given to the rich who are then ordered to pay it to the poor, is to provide a life-test for the rich. At the same time it is an important element for strengthening the social bond among Muslims, and creating a fraternal atmosphere in society. It also has a positive economic effect by increasing the aggregate disposable expenditure of the whole society.

## 5.7 Types of Zakāh

The various types of zakāh fall broadly into two groups: personal zakāh and wealth zakāh as shown below:

### Personal Zakāh

The only type of personal zakāh is zakāt al-Fiṭr. It is reported in Ṣaḥīḥ al-Bukhārī and Ṣaḥīḥ Muslim by ibn 'Umar that:

*The prophet (s.a.w.) prescribed zakāt al-Fiṭr for every Muslim free or slave, male or female, young or old, but it should be paid before 'Eid al-Fiṭr Prayer.*<sup>391</sup>

All Muslims celebrate the achievement of fasting the month of Ramadan. On that day, those who have the means should give to those who do not in order that they may have greater happiness and satisfaction. The amount should be decided by a group of scholars in each society, and should be paid before 'Eid prayer in order that the poor may spend it on that same day.

In the Prophet's time, the amount of zakāt al-Fiṭr was about a sā' (2.3 litres) of food, milk, barley, date or raisins. This amount of food would have brought any one of his contemporaries happiness and satisfaction for the day. Modern scholars have generally seen the decision as to

390 *ibid.*, No. 501.

391 Ṣaḥīḥ Muslim, Book of Zakāh, No. 2150.

what is an appropriate amount for zakāt al-Fiṭr as a matter of ijtihad (independent legal reasoning), the principle being always that it should be sufficient to attain the required objective.

This type of zakāh is left to people to practice by themselves, and they should control its payment to whom they see fit because its function is mainly social and local. Although zakāt al-Fiṭr is a small sum, the timing of the payment and the occasion makes it very important socially. In many cases people pay much more than what is recommended. It is a means of connecting rich and poor, especially after a month in which Muslims have fasted during the day and prayed during the night, and thereby attained a higher level of spiritual fulfilment. Zakāt al-Fiṭr fulfils a need to act upon this elevated spiritual feeling, and it cultivates a social bond which in some cases lasts forever.

When a rich person feels that his duty is to be concerned for the poor and that he should personally look for the poor in his society and ensure that they receive zakāt al-Fiṭr on time, this makes him more aware of their condition and of his responsibility towards them. At the same time, the poor person will appreciate the rich of society and to some degree respect them for their concern. 'Eid al-Fiṭr can thereby act as a kind of insurance policy for social harmony between rich and poor.

### Wealth Zakāh

Wealth zakāh is as complex as the concept of wealth itself, and adding to this complexity is the fact that the Qur'ān has mentioned only the principle of it, with the application left to the Prophet's (s.a.w.) practice. Some of these practices are general and applicable to any society at anytime, and others are to be decided according to the economic, monetary, financial and social context of the time. Wealth is normally acquired in two distinct forms, namely as monetary or non-monetary wealth, and the rules of zakāh reflect this distinction.<sup>392</sup>

#### *Zakāh on Monetary Wealth*

Concerning monetary wealth, zakāh is a straightforward 2.5% of the balance of money saved that exceeds the threshold ("nisāb") annually.

<sup>392</sup> See the Transaction Map Theory chart in Chapter 6.

Two important metrics for calculating wealth zakāh are therefore the amount of this threshold, and the lunar year which is the basis of calculating the time period.

The threshold for zakāh on monetary wealth during the time of the Prophet (s.a.w.) was 200 dirhams (equal to 595 grams of silver) or 20 dinārs (equal to 85 grams of gold). Of course, different kinds of money are in use today, and both the value of money and the prices of gold and silver are subject to manipulations of various kinds. All of this leaves the door open for discussions on some other adequate way of deciding what the threshold should be for the payment of zakāh on monetary wealth, but in the meantime common practice throughout the Muslim world is for the existing thresholds of gold and silver to be converted into local currency values.

The lunar year for zakāh on monetary wealth is the same as for any other type of wealth zakāh, namely one "hijriah" (lunar year) equivalent to twelve months, each consisting of an average of 29.5 days.

The ability of money to store value, which is unique and Divinely given, is its most important function and the one that drives the energy of every market. Without this function of money, society would lose much of its wealth in the process of storing non-monetary assets which, generally, are prone to degradation by the laws of nature. Being able to store value in the form of money rather than goods is therefore a substantial advantage, and Muslims should indeed be grateful for such a Divine endowment. Paying money zakāh is an expression of that gratitude, as well as a means of applying the same natural process of degradation to money which affects other physical goods. Under this logic, usury, which is the exact opposite of zakāh,<sup>393</sup> is unnatural and contrary to the laws of physics which require that other types of asset experience compound decrement. Zakāh on monetary wealth can therefore be considered as a share payable in respect of its Divine endowment.

The application of zakāh to money has another important function which is to act as a catalyst for the economy, either through encouraging

<sup>393</sup> Buckley, 2000, p. 202.



physical investment<sup>394</sup> or by encouraging the exchange of money for other assets. The option to spend money within the lunar year, and thus avoid the payment of zakāh, may result in some holders of money spending or investing it more quickly than otherwise. In both cases, the velocity of money will be increased in an economy. Indeed, the Prophet (s.a.w.) warned those who are responsible for the wealth of others not to leave their monetary wealth uninvested and subject to erosion by zakāh. It is narrated by Tirmidhi that the Prophet (s.a.w.) said:

*Whoever is entrusted with the money of an orphan should trade with it and should not leave it sitting to be used up by charity.*<sup>395</sup>

#### *Zakāh on Non-Monetary Wealth*

Dr Yusuf al-Qaradāwī has written what is regarded as a comprehensive research work on zakāh under the title *Fiqh Az-Zakāh*. There he describes almost all of the applications of zakāh at the time of the Prophet (s.a.w.) as well as the different opinions on each application, and at the end of each application he gives his own forthright opinion. This piece of research is very important to gaining an understanding of the subject of zakāh, and in particular helps us to apply non-money wealth zakāh in harmony with the economic, monetary, financial and social structure. Attempts to replicate the applications of non-money wealth zakāh from the time of the Prophet (s.a.w.) are likely to fail in modern times where such applications are no longer a major part of economic activity, or where they are applied under very different conditions.

All independent states in the world today are well established. Most have legal systems that demand from their citizens an annual statement of income or wealth, often for tax and state pension purposes. In the Muslim countries these statements should be developed, or another type of statement created, for the purpose of zakāh. These statements should be developed periodically to match any changes in the overall structure of the state, taking into account changing definitions of what

394 See the discussion on investment funds in Chapter 6.

395 The True Call, discussion on Zakaat, 2008.

it means to be rich, what constitutes wealth, where the thresholds are to be set, and so on. Again the application of zakāh should be designed to fit as a part of the national budget and the collection of zakāh should be the duty of the state and should not be left to the individual.

The wealth structure of the Arabian peninsula in the time of the Prophet (s.a.w.) was either in gold and silver which were considered as monetary wealth, or in non-monetary wealth which was in form of agricultural crops, land, livestock, trade and treasure, as well as people's own houses, horses, weapons and armour. All such possessions were in direct ownership, and often recorded in simple legal documentation. The Prophet (s.a.w.) applied zakāh to these types of wealth in different ways according to the nature of the wealth, within the general principle of zakāh.

Today's wealth structure is rather different. Hence, what is needed is an understanding of the main objective of zakāh and the principles behind its application. The main worldly objective of zakāh is to achieve economic and social balance for the benefit of the whole society. From another perspective, it is a recognition of the importance of the poor to the rich as part of society's human resources. Instead of the poor being seen as a destructive force driven by destitution, zakāh transforms them into a positive body of consumers. Meanwhile, the application of zakāh involves the transfer of wealth from the rich to the poor.

Careful attention must therefore be given to defining the term "rich" before applying zakāh. For example, zakāh should not be applied to wealth that is required for personal use. Most traditional scholars also make full or partial allowance for any debts that are owed when calculating the amount of wealth subject to zakāh.

Unlike monetary wealth, where the threshold and the lunar annum should be applied, the application of zakāh to non-monetary wealth depends on the type of wealth under consideration. For example, zakāh on agricultural harvests should be collected once on the day of the harvest (there is no completion of the lunar annum) and the threshold should be applied. The same is the case for discovered treasures. The percentage of non-monetary wealth zakāh ranges

between 20% (where there is no effort or labour involved) and 2.5%, taking into account all of the costs of producing or obtaining such wealth or growth.

Most Muslim countries around the world today have sophisticated legal systems, which include legislation relating to the various types of ownership, and it would be relatively simple for these to define the various categories of non-monetary wealth, as well as to identify the people that could be considered rich. Any such country which wished to fulfil its Islamic duty to organise and legislate for zakāh, could appoint a board or committee including experts specialising in shari'ah, economics and taxation, social and welfare officers, and any other necessary professional advisors, in order to enable the introduction of one national zakāh system working in harmony with the tax system and enforced in parallel with it.

### Zakāh and Hoarding

The word "kanz", meaning hoarding, has a similar scope in both the English and Arabic understanding. It relates to storing something valuable, or to treasure, or to a collection of precious things, or something that has been naturally stored deep in the earth. We have already noted an important difference between the storing of goods (which tend to depreciate) and the storing of money (which is hardly affected by being kept idle). It is also worth noting that there is a difference between the opposite of these two actions, namely the consumption of goods (which eliminates wealth) and the spending of money (which exchanges one item of wealth for another).

The Qur'ān uses the word "kanz" specifically in relation to gold and silver upon which zakāh is due but has not been paid. It gives a terrifying picture of the consequences for those who hoard money and do not pay the required zakāh upon it:

... And there are those who hoard gold and silver and spend it not in the way of Allah: announce unto them a most grievous chastisement - on the day when it will be heated in the fire of Hell, and with it will be branded their foreheads, their flanks and

their backs - this is the (treasure) which ye hoarded for yourselves: taste ye, then, the *torments* ye hoarded.<sup>396</sup>

The ḥadīth elaborate on the punishments facing those who refuse to pay the required zakāh. Abu Hurāirah narrated as follows:

The Prophet (s.a.w.) said, '(On the Day of Resurrection) camels will come to their owner in the best state of health they have ever had (in the world), and if he had not paid their zakāh (in the world) then they would tread him with their feet; and similarly, sheep will come to their owner in the best state of health they have ever had in the world, and if he had not paid their zakāh, then they would tread him with their hooves and would butt him with their horns'. The Prophet added, 'one of their rights is that they should be milked while water is kept in front of them'. The Prophet added, 'I do not want anyone of you to come to me on the Day of Resurrection, carrying over his neck a sheep that will be bleating. Such a person will (then) say, "O Muhammad! (please intercede for me)". I will say to him, "I cannot help you, for I conveyed Allah's Message to you." Similarly, I do not want anyone of you to come to me carrying over his neck a camel that will be grunting. Such a person (then) will say "O Mubammad! (please intercede for me)". I will say to him, I can't help you for I conveyed Allah's message to you'.<sup>397</sup>

Abu Huraira also narrates that:

Allah's Apostle said, 'Whoever is made wealthy by Allah and does not pay the zakāh of his wealth, then on the Day of Resurrection his wealth will be made like a bald-headed poisonous male snake with two black spots over the eyes. The snake will encircle his neck and bite his cheeks and say, "I am your wealth, I am your treasure". Then the Prophet recited the holy verses 'Let not those who withhold . . . (to the end of the verse)'.<sup>398</sup>

Al-Ahnaf bin Qais narrated that:

While I was sitting with some people from Quraish, a man with very rough hair, clothes, and appearance came and stood in front of us, greeted us and said, 'Inform those who hoard wealth, that a stone will be heated in the Hell-fire and will be put on the nipples of their breasts till it comes out from the bones of their shoulders and

<sup>396</sup> Qur'ān 9: 34-35.

<sup>397</sup> Al-Bukhārī, *op. cit.* Vol 2, Book 24, No. 485.

<sup>398</sup> Qur'ān 3.180.

<sup>399</sup> Al-Bukhārī, *op. cit.* Vol 2, Book 24, No. 486.



then put on the bones of their shoulders till it comes through the nipples of their breasts, the stone will be moving and biting'. After saying that, the person retreated and sat by the side of the pillar. I followed him and sat beside him, and I did not know who he was. I said to him, 'I think the people disliked what you had said'. He said, 'These people do not understand anything, although my friend told me'. I asked, 'Who is your friend?' He said, 'The Prophet said (to me), "O Abu Dhar! Do you see the mountain of Uhud?" And on that I (Abu Dhar) started looking towards the sun to judge how much remained of the day as I thought that Allah's Apostle wanted to send me to do something for him and I said, "Yes!" He said, "I do not love to have gold equal to the mountain of Uhud unless I spend it all (in Allah's cause) except three dinārs". These people do not understand and [they] collect worldly wealth. No, by Allah, neither I ask them for worldly benefits nor am I in need of their religious advice until I meet Allah, the Honourable, the Majestic'.<sup>400</sup>

## 5.8 Distribution of Zakāh

While the amount of zakāh to be given to recipients can vary according to the time and the place, it is widely agreed that sufficient should be given to completely fulfil the recipient's essential needs. The authority responsible for the distribution of zakāh should be given only general guidelines, and should have the freedom to evaluate each case according to its merits within those guidelines.

Zakāh is meant to be a social welfare safety-net, mainly for the poor and needy, but there are six other categories that the Qur'ān has included that qualify for zakāh. All these categories are mentioned in the Qur'ān as follows:

*Alms are for the poor and the needy; and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth); for those in bondage; and in debt; in the cause of Allah; and for the wayfarer: (Thus is it) ordained by Allah, and Allah is full of knowledge and wisdom.*<sup>401</sup>

Some discussion on these specified recipients of zakāh follows.

Scholars differ in defining who precisely constitutes the poor and needy, including whether they are to be regarded as one group or two. Some

400 *ibid.*, No. 489.

401 Qur'ān 9:60.

differentiate them according to their ability to work, others based upon their eligibility for zakāh, and yet others by reference to the sufficiency of their income in meeting their expenses. In a modern Islamic state, the regulator should adopt a clear set of criteria to define the poor and the needy.

Indeed, zakāh is important enough to merit a department of its own within the political and economic structure of a Muslim state. Following the Qur'ānic provision, the employees of this department could take their salaries out of the zakāh budget, or from the general state budget, or perhaps work voluntarily. In general, none of these three approaches would be disputed among Muslim scholars.

In some cases when a person reverts to Islam, he faces a challenge from his people and finds himself isolated and perhaps also in financial hardship. In such cases, financial support can be made available through the zakāh funds under the category of those recently reconciled to the truth of Islam. Some discussions of who precisely constitutes "one whose heart has recently been reconciled to Truth" have considered that non-Muslims who are expected to accept Islam, and non-Muslims whose injustices are feared, may also be entitled to benefit from zakāh.<sup>402</sup> The implications of this approach in modern times are of course substantial.

Islam abolishes slavery in a unique way, not by a revolution or rebellion, but by respecting the social structure as it is and then dealing with the problem in three stages. Firstly, it encourages both master and slave to reform their relationship. This reform requires the master to respect the human rights of the slave by feeding him and dressing him in a similar manner to himself, and by not asking him to do more than he is able. In return, the slave should be patient and accept his situation while the society works its way towards slavery-free status. Secondly, Islam gradually eradicates the causes of slavery by abolishing almost all of the circumstances that lead to it. Thirdly, Islam opens up the doors to the freeing of existing slaves. Together, these three stages quickly reduced slavery on the Arabian peninsula without upsetting the social and economic structure. In the meantime,

402 Ibn Qudāmah, *al-Mughni*, p. 317.

a new value system was created which rejected slavery. This process contrasts with experiences elsewhere, for example in the United States during the eighteenth and early nineteenth centuries where communities inflicted waves of violence against rebellious slaves. In some cases, this resulted in slaves returning to their masters asking for forgiveness and begging to be taken back in an attempt to survive. Providing a share of zakāh for the purpose of paying to free slaves is part of the Islamic framework for achieving a slavery-free society.

Debt can sometimes be an unsolved problem that causes stress and illness. Allah (s.w.t.) has given debtors a share of the zakāh funds in order to alleviate such problems. At the same time, the existence of a mechanism to repay the debts of those unable to do so for themselves, improves the confidence of those who might otherwise avoid lending. As a result, the level of social trust within the society improves and a form of social welfare arises which is difficult to find elsewhere.

In its widest sense "the cause of Allah" means any lawful way of spending, but the specific meaning here is related to military activities. This may include payment for direct fighting but also indirect spending to support the military structure in peace time.

Another demonstration of the extent of the welfare society of a modern Islamic state is manifested by looking after the wayfarer, which could include a traveller who has lost his property, fallen ill or any other circumstance which would place him in a position of need.

These are the groups eligible for a share each, not necessarily an equal share nor in a specific order of priority. The distribution between these categories would vary according to time and place, likewise the mechanism of its distribution and the amounts spent on the administrative infrastructure.<sup>403</sup>

### 5.9 Zakāh and the Ummah

The Muslim "Ummah" (nation) is an entity which plays a very important functional role in the life of all Muslims. Without this bond, which

403 al-Mazeni, 1986.

keeps Muslims united across time and space, Islam cannot be practiced fully.<sup>404</sup> Allah (s.w.t.) has expressed this throughout the Qur'ān, for example:

*Verily, this Ummah of yours is a single Ummah and I am your Lord and Cherisher: therefore serve Me (and no other).*<sup>405</sup>

*...and verily this Ummah of yours is a single Ummah and I am your Lord and Cherisher: therefore fear Me (and no other)).*<sup>406</sup>

The failure to apply and practice the rules of zakāh at both the individual and societal levels destabilises the structure of the Ummah to the cost of every Muslim. The rules of zakāh should therefore be implemented within a comprehensive economic, financial and monetary framework based upon sharī'ah. The absence of such a framework at an international level is a contributing factor to the division of Muslim nations, and their tendency to ally themselves with non-Muslim nations in preference to those of their own faith. Of course, it is not only zakāh which reinforces the concept of Ummah. The direction of prayer is likewise a strong unifying factor, oriented as it is towards "al-Ka'bah" in Makkah, the place where man first practiced his submission to Allah (s.w.t.), and Muslims gather annually in the "Hajj" pilgrimage.<sup>407</sup> A successful re-establishment of the Ummah in modern times undoubtedly requires a widespread sincere practice of unifying bonds such as these.

Laws and regulations in any economy should be in harmony and should not contradict one other. Zakāh on monetary wealth is a cost charged against the balance of money saved, but usury is income added to the same money balance. Zakāh and usury are technically contradictory, and cannot co-exist.

404 Buckley, 2002, p. 208.

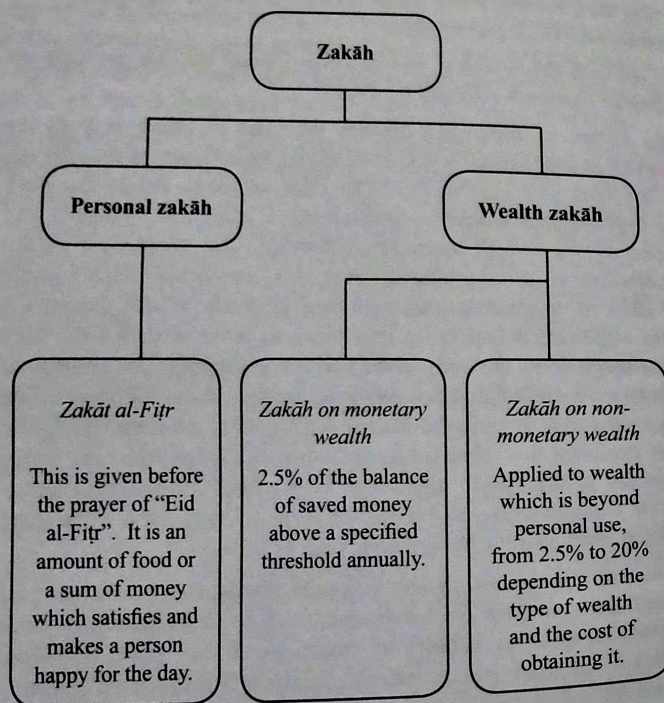
405 Qur'ān 21:92.

406 Qur'ān 23:52.

407 Al-Qaradāwi, 1975.



## 5.10 Zakāh Schematic



## Part Three

Transaction Map  
Theory

## 6 TRANSACTION MAP THEORY

### 6.1 Introduction

As usury has now become the basis of the international monetary and financial system, the Muslim world is faced with a huge dilemma. Either it accepts the common practice of usury by means of excuse or compromise, or it tries to introduce an equivalent usury-free system. Some limited attempts in the latter direction have been made as a response to a huge demand for usury-free financial products among Muslims. These attempts include the establishment of Islamic banks, Islamic investment companies and a variety of Islamic financial products offered through the conventional banking system. Efforts have also been made at the political level, sometimes with the support of the judiciary, such as the decision of the Supreme Court of Pakistan in 1999 to abolish usury from the country's financial system.

None of these attempts have succeeded in providing a usury-free system or even usury-free products. The main reason for this is the failure to recognise that the current monetary system is based upon usury, and that within this system it is often impossible to avoid usury irrespective of what means are adopted. Modern money is embedded with usury from the moment it is created, so much so that one might justifiably call such money "usurious". Any transaction involving modern money is likewise touched by usury to some extent.

Today's usurious monetary and financial systems have created much confusion in the Muslim world, and this situation has been complicated by many contradictory opinions and fatāwa. As a result, many ordinary Muslims have been led astray from traditional Islamic guidance, while others have become apathetic towards the subject. Understanding the position of Islam with regard to money is crucial in bringing clarity to this situation. The Qur'ānic distinction between trade and usury is well known, and so any such explanation must at least distinguish between these two practices:



... They say 'Trade is like usury' but Allah hath permitted trade and forbidden usury.<sup>408</sup>

Unfortunately, the reality in Muslim countries today is that they are all part of the usurious international monetary and financial system. Under this system, trade seems like usury simply because all transaction calculations are based upon usury. However, the monetary and financial system is a man-made one, and therefore if there is enough human will to change it, it can be changed. The simple way to do this is by reversing all of the steps which caused it to be usurious in the first place.

## 6.2 Definition and Framework

After careful consideration, I have designed the Transaction Map Theory ("TMT") as an instrument by which usury can be identified in any transaction under any monetary system, and which amply demonstrates the difference between permitted trade and unlawful usury. TMT is divided into three parts: assumptions, technique, and application.

### The Assumptions

In order to analyse a wide range of transactions in a realistic manner, and to illustrate how TMT operates, certain assumptions have been made. These assumptions are based upon sharī'ah principles and rulings, and are discussed below.

#### *Assumption 1: Endowment Status*

For any entity to carry out a transaction, he or she must possess some combination of money, goods and services, or be of sufficient creditworthiness to acquire goods and services on deferred payment terms. However, selling something that one does not currently own is generally prohibited. For example, ibn 'Umar narrated that:

*The Prophet forbade the selling of foodstuff before receiving it.*<sup>409</sup>

408 Qur'ān 2:275.

409 Al-Bukhārī, *op cit.*, Vol 3, Book 34.

#### *Assumption 2: The Need for Exchange*

The endowments of goods and services are distributed in such a way that makes transactions inevitable. In other words, money, goods, and the ability to provide services, are not skewed so that one section within society has most of the ownership or control of these things while another part of society has little or nothing.

#### *Assumption 3: Rationality*

Each transaction should occur for rational reasons, meaning that all parties who are involved in it should be motivated by positive objectives (as opposed to fraud, for example).

#### *Assumption 4: Free Competition*

A market can be established when multiple parties are willing to make an exchange. Such a market should be regulated to guarantee free competition and to prevent cartels and monopolistic abuses.

#### *Assumption 5: Real Money, Real Goods and Services*

Money, goods, and services must be identifiable, well-defined and their physical properties must function independently of any exogenous factors. Even though fiduciary fiat money does not fit within this concept, TMT can still be of use where money takes this form.

#### *Assumption 6: Freedom from Ethical Failures and Moral Hazards*

All parties act according to the spirit of sharī'ah so as to avoid the deliberate misinterpretation of Islamic rules and conditions relating to trade and market activities.<sup>410</sup> A strong prohibition exists in the Qur'ān against the misinterpretation of Islamic rules, illustrated through the story of the people of the Sabbath. Being under a prohibition of fishing on a Saturday, they responded by casting their nets on Friday and collecting their fish on Sunday. Their claim that they had obeyed the prohibition against fishing on a Saturday was in fact a deliberate misinterpretation of the ruling that had been given to them. The Qur'ān states of this ethical failure as follows:

<sup>410</sup> Rule misinterpretation is a phenomenon called "fiqh al-hīyal" (legal tricks). A whole chapter in Ṣaḥīḥ al-Bukhārī is dedicated to this issue (Vol. 9, Book 86).

*Ask them concerning the town standing close by the sea. Behold! They transgressed in the matter of the Sabbath, for on the day of their Sabbath their fish did come to them, openly (holding up their beads,) but on the day they had no Sabbath, they came not: Thus did we make a trial of them, for they were given to transgression.<sup>411</sup>*

The objective of reducing moral hazard is also evidenced within Islamic law. For example, an agent is generally prohibited from selling to himself goods that are owned by the principal who has employed him. The moral hazard here is of course that the agent will sell such goods at a low price in order to benefit himself at the expense of the principal. Many other forms of harmful transaction are likewise prohibited, including sales which have the capacity to favour one party. Two of these are described in the following ḥadīth:

*Allah's Apostle forbade selling by munabadha (to sell one's garment by casting it to the buyer not allowing him to examine or see it). Similarly he forbade the selling by mulamasa (mulamasa is to buy a garment, for example, by merely touching it, not looking at it).<sup>412</sup>*

**Assumption 7: Gain ("al-Ghunm") Should Equal Loss ("al-Ghurm")**

In *Intermediate Microeconomics*, Varian explains that any two parties making an exchange will be in a better position after the exchange than they were before the exchange. The reason for this is that the unit gained would have higher utility than the unit that is given up, and this principle applies for both parties. It is described as "mutually advantageous trade" and is explained within the concept of the "Edgeworth Box".<sup>413</sup>

In any transaction, the participants naturally expect to receive an amount of value equal to the value that they have given, so that in value terms what is gained is equal to what is lost. At the same time, the parties also expect to be in a better position after the transaction than they were before it, due to the satisfaction of a subjective desire for

the acquired item. Any contravention of the principle that both parties should exchange equal value but be in a better position following the exchange, is likely to lead to the annulment of the initial agreement.

**Assumption 8: Forbidden Deception "al-Gharar"**

Gharar is variously understood in English as "uncertainty", "deception" or "deceptive uncertainty". Any form of gharar renders a transaction unlawful in Islam. It is confirmed in Ṣaḥīḥ al-Bukhari and Ṣaḥīḥ Muslim that the Prophet (s.a.w.) prohibited gharar. Classical examples in fiqh literature include selling a slave that has run away and cannot be found, selling a bird in the air, selling the unborn baby of a pregnant camel, or any other item whose nature and quality is unknown to one or both parties. Another kind of transaction containing gharar occurs where a seller cannot deliver an item that he has sold, for example because he does not yet own it.<sup>414</sup> Deception can also be employed when concluding a transaction. For example, 'Abdullah bin Abu 'Auf reports that:

*A man displayed some goods in the market and swore by Allah that he had been offered as much for them, [an amount] which in fact had not been offered, and he said this in order to cheat a Muslim.<sup>415</sup>*

### The Technique

Mohammed Salāma Jabr, a prominent Islamic scholar, explained the Islamic view of dividing wealth into moveable goods ("maṅqūl") and real estate ("ʿaqār"). He claimed that the difference between these is that the latter cannot be delivered but the former can. He further divided real estate into buildings ("mabāni") and land ("arāḍi"), while moveable goods were divided into price ("ath-thaman") or that which is priced ("muthamman"). Muthamman items comprise plant ("nabāt"), animal ("haywān") and inorganic things ("jamād"), and price can be divided into price by consent ("athmān bi'l-istilāh") and price by nature ("athmān bi'l-khilqah"). Price by consent can be either circulated currency ("al-fulūs al-rā'ijah") or fiduciary money ("kaghid") and price by nature can be either gold ("dhahab") or silver ("fiḍḍah").

411 Qur'ān 7:163.

412 Al-Bukhārī, *op cit.*, Vol 3, Book 3.

413 Varian, 1987, pp. 481-483. A simple Edgeworth Box shows all possible combinations of distributions of two goods among two individuals, and can be used to represent the indifference curves of each.

414 Al-Jawziyah, 1986.

415 Al-Bukhārī, *op. cit.*



Jabr goes on to explain the importance of this classification and how it helps our understanding of transactions in general.<sup>416</sup> One example is that the precise monetary items to be paid to the seller are not usually specified when concluding a transaction. This is because one unit of money can be substituted for another, since money is a fungible item. But for non-fungible goods, each item is unique. For example, one antique painting cannot substitute for another in a transaction.

Jabr added that Allah (s.w.t.) in His wisdom has created physical properties for things, such as weight and volume, so as to judge the fairness of transactions, and has created gold and silver to be the measure of price for these transactions. (On the other hand, in metaphysical matters, He has given the human mind the ability to judge according to the *sharī'ah* law.) Gold and silver are considered to be natural prices and the currencies made of them are lawful even if they contain a small percentage of other materials. The currency made from gold is called "ad-dinār" and from silver "ad-dirham". But people, for their convenience, also use other currencies besides gold and silver. They have for example cast "al-qīrāt" and "ad-dānik" from copper, and agreed to use it as a measure of price in a ratio of one dānik to one sixth of a dirham, and one qīrāt to one half of a dānik. It is called "al-fulūs al-rā'ijah" if it has been accepted, and "al-fulūs al-kāsidah" if otherwise.

The TMT technique is based on the unique distinction between "ath-thaman" (money) and "al-muthamman" (priced items such as goods and services). When using this technique, for simplicity, countervalue in a transaction will be classified either as money or goods. All available transactions will then fall within one of only three categories, without any exceptions. These categories are:

- money for money;
- goods for goods;
- money for goods.

When considering any particular transaction, three steps are to be followed in order: i) specify which of the above three categories the particular transaction belongs to; ii) decide the objective of the particular

transaction; iii) find the relevant *sharī'ah* conditions governing this particular transaction.

This process should be undertaken in any transaction where a *sharī'ah* condition applies, and I am calling it the "mechanism for assurance of *sharī'ah* conditions".<sup>417</sup> The process has been developed with reference to the following observations. Firstly, human beings by their nature are instinctively intellectually active, which means that every type of activity tends to have an objective behind it. Secondly, within the sphere of activities where an individual faces alternative ways of achieving an objective, a choice has to be made as to whether to apply the required *sharī'ah* condition. This choice forms part of the life-test.<sup>418</sup> Because the *sharī'ah* is Divine in origin, by definition it represents the best choice and is the only choice that balances the interests of the individual with the interests of the rest of society in a way which is positive for all. At the same time, it does not contradict any other rule or condition of *sharī'ah*. No other laws or conditions beyond those of *sharī'ah* can achieve the objective of a given activity without giving rise to negative side-effects, or contradicting other laws or conditions.

After following these three steps, one of two results will be obtained. Either the required objective will be fulfilled through the application of the appropriate *sharī'ah* conditions, or one or more of these conditions will be violated in which case the transaction is rendered usurious. Each of the aforementioned three categories of transaction can be undertaken for different objectives, and it is important to give each transaction a name to represent that objective. Although TMT does not map the name of every transaction that exists today, it does establish a model for allowing objectives to be lawfully achieved under *sharī'ah*. It also shows how a failure to apply the *sharī'ah* condition will render a given transaction unlawful and lead to the loss of the original objective. The following sections discuss the application of TMT for various important types of transaction.

416 Jabr, 1981, pp. 71-73.

417 This process belongs among the Islamic principles described in Chapter 2, but it is introduced here in order to relate it to a relevant example.

418 See Section 2.3 for a discussion of the life-test.

## Money for Money Applications

This category of transaction is carried out for a variety of purposes as discussed below.

### "Al-Qard" (loan) or "al-Dayn" (debt)

The loan is one of the most important instruments in human financial activity. According to TMT, money can be exchanged for money for different purposes but every purpose must be distinct and its particular name should be related only to this purpose. Here, the word "loan" indicates that a clear intention exists to lend and borrow. It can take two different forms, the first being restricted to the context of moral obligation, and the second being a natural practice among merchants or traders or anyone who suffers a temporary shortage of money or goods.

In this context, a moral obligation can arise where an individual has money surplus to his needs and feels obliged to loan some of that surplus to somebody in need. This loan is called "qard ḥasan" which is commonly translated as "beautiful loan" or a "good loan". Some writers explain that ribā in jahiliyah was applied to dayn mu'ajjal (postponed debt, arising for example from a sale in which it is agreed that payment will be made at a later date) and this dayn is not a synonym for qard. For example, according to al-Rāzi, in the Arabic language the word qard means to lend (darāhim, danānir, dates, wheat or the like) without a fixed repayment date, while in al-dayn a fixed repayment date would normally be stipulated. Accordingly, in Islam, qard is considered as an act of charity, hence the statement of the Prophet (s.a.w.) that "al-qard as-ṣadaqah (a loan is charity)".<sup>419</sup> One common mistake is to assume that qard ḥasan could be applied to investment, which is absolutely contradictory to its nature and original application.<sup>420</sup>

The natural situation among traders is that they often find themselves either in debt or in credit to each other. The word used to describe these

trade-related obligations is "dayn". Reconciling this residual position, through mutual accounts and traditional market customs such as trade, has great benefit for all with little additional cost or inconvenience.

Together, qard and dayn fulfil important social functions and enable people to discharge some of their religious, social, financial and moral obligations, as well as facilitating the settlement of the residual monetary and financial position between traders. Because of the differing purposes of qard and dayn, the Qur'ān and sunnah have dealt with the participating parties in different ways so as to achieve the respective objectives.

The Qur'ān addresses the lender under qard in three different ways. In the first of these, he is given the honoured status of being a lender to Allah Himself:

*...and loan to Allah a beautiful loan.*<sup>421</sup>

In the second he is advised as follows:

*If the debtor is in a difficulty, grant him time till it is easy for him to repay...*<sup>422</sup>

And thirdly:

*But if ye remit it by way of charity, that is best for you if ye only knew.*<sup>423</sup>

These in turn are matched by three different levels of reward. They are, firstly, a doubling of the amount of the loan to the credit of the lender and multiplying it many times:

*Who is he that will loan to Allah a beautiful loan, which Allah will double unto his credit and multiply many times? It is Allah that giveth (you) want or plenty. And to him shall be your return.*<sup>424</sup>

Secondly, increasing the amount of loan to the credit of the lender and adding a generous reward from Allah (s.w.t.):

*Who is he that will loan to Allah a beautiful loan? For (Allah) will increase it manifold to his credit, and he will have (besides) a generous reward.*<sup>425</sup>

419 Reda, 1986, p. 68.

420 For example, in *Towards a Just Monetary System*, Chapra proposes to differentiate between qard ḥasan for consumption and qard ḥasan for investment (see Chapra, 1985, p. 42).

421 Qur'ān 73:20.

422 Qur'ān 2:280.

423 Qur'ān 2:280.

424 Qur'ān 2:245.

425 Qur'ān 57:11.



And thirdly, doubling the amount of loan to the credit of the lender and granting him forgiveness:

*If ye loan to Allah a beautiful loan, He will double it to your (credit), and He will grant you forgiveness: For Allah is All-Thankful, Most Forbearing.*<sup>426</sup>

The other party to the qarḍ is the borrower. Here, the Qur'ān uses the word "ḍayn" which emphasizes obligation, liability and responsibility. Repudiation of debt and delay in repayment is considered a great sin, and it is worth noting that the longest verse in the Qur'ān is referred to as "Āyat al-Dayn". The importance of paying off debt is also well established in the sunnah. When the Prophet (s.a.w.) was asked to perform a prayer for a deceased individual, he first ensured that any outstanding debt would be paid. Abu Hurayrah narrates:

*Whenever a dead man in debt was brought to Allah's Apostle he would ask, 'Has he left anything to repay his debts?' If he was informed that he had left something to repay his debts, he would offer his funeral prayer, otherwise he would tell the Muslims to offer their friend's funeral prayer. When Allah made the Prophet wealthy through conquests, he said, 'I am more rightful than other believers to be the guardian of the believers, so if a Muslim dies while in debt, I am responsible for the repayment of his debt, and whoever leaves wealth (after his death) it will belong to his heirs.'*<sup>427</sup>

Qarḍ can be made either in the form of money or goods. In cases where the loan is of goods, the requirement is to pay back the loan with exactly the same quality of goods. But if the quality of goods cannot match exactly the quality of goods borrowed, then the borrower can either pay back with better or worse quality goods. In such cases, the Prophet (s.a.w.) has recommended repaying with better quality goods. This is described as "Ḥusn al-Qadā'" which can be translated as "good manner of repayment". The fact that the sunnah permits a form of increase involving an improvement in the quality of a borrowed non-fungible item,<sup>428</sup> may seem to conflict with ruling that there should be no increment when repaying a loan, and that any loan which results in a benefit for the lender is usury. However, it is essential to realise that such a benefit must not be contracted at the outset of a loan transaction,

426 Qur'ān 64:17.

427 Al-Bukhārī, *op. cit.*, Vol 3, Book 41.

428 Reda, 1987, p. 104.

in other words that it must take the form of a voluntary gift to the lender. For this reason, ḥusn al-qadā' does not contradict the general prohibition of ribā. Using the same reasoning, many scholars have also permitted the payment of a monetary gift to a lender following repayment of a qarḍ (so long as this is not expected by custom).

Abu Hurayrah narrated that:

*A man came to the Prophet and demanded a camel (which the Prophet owed him). Allah's Apostle told his companions to give him (a camel). They said, 'We do not find except an older camel (than what he demands)'. (The Prophet ordered them to give him that camel). The man said, 'You have paid me in full and may Allah also pay you in full'. Allah's Apostle said, 'Give him, for the best amongst the people is he who repays his debts in the most handsome manner.'*<sup>429</sup>

Al-Qarāḍ or al-Muḍārabah

In the light of the above discussion, use of the word "loan" in relation to an investment process is inappropriate. Instead, in matters of investment, one commonly encounters the Arabic word "al-qarāḍ" (meaning investment fund), along with the associated transaction agreement of "muḍārabah" (meaning silent partnership). The essence of al-qarāḍ is the provision of capital from one or more investors and the provision of labour from one or more entrepreneurs, within a partnership.

It is a silent partnership because the one who provides capital does not have management authority over the entrepreneur. The capital provider and the entrepreneur share profits in an agreed ratio, but losses are all attributed to the account of the capital investor. In a modern economy, this combination of capital and labour can be achieved in more than one legal form, for example by means of partnership, private or public limited company, and so on. It should be noted that where all partners contribute capital, the arrangement would constitute the more general form of partnership called "mushārah" (meaning partnership). Mushārah follows the general rule that profits are shared according to a ratio agreed at the outset among the partners, while losses are shared according to capital ratio.

429 Al-Bukhārī, *op. cit.*, Vol 3, Book 41. The *ḥadīth* suggests that the camel repaid was of better quality than the one that had been borrowed.

The purpose of investment in Islam is to achieve a growth in wealth, and the condition for investment is the sharing of profit and loss. This prudent condition can only be met when the investment involves a transformation of money into goods by means of a physical project of some kind. Periodic accounting reports should of course be scheduled in advance and take place according to agreed accounting standards in order to determine how much profit has been made.<sup>430</sup> In those cases where a project incurs losses, growth can still be achieved for the economy as a whole as a result of the turnover between money and goods during the physical investment process. This in itself can be a positive form of economic activity, even though an accounting profit may not result from it.

An investment market applying these conditions will allow investors more control over the direction in which investment funds flow. This will not only increase the likelihood of growth, but will tend to guide growth to the areas where it is most needed and encourage genuine entrepreneurs. A financial investment which rewards a percentage of the money invested with a payment of interest regardless of how the capital has being employed, is less likely to achieve such positive results. For example, El Diwany<sup>431</sup> points out that in the interest-based economy loans tend to be directed towards those who have substantial assets to offer as collateral. Meanwhile, in a profit and loss sharing system, investment tends to be directed towards the most attractive projects since these are the ones most likely to yield a profit to the investor. Not only does this increase the quality of allocation of investable funds, but it also increases the likelihood that those who do not have collateral (in other words, the poor) will have a share of the capital resources of society, thereby reducing wealth inequality.<sup>432</sup>

### *Aş-Şarf*

There are two types of "aş-şarf" (currency exchange):

- Exchange into different units of the same currency;
- Exchange into a different currency.

In the case of exchange into different units of the same currency, two conditions must be applied. Firstly, there must be parity of amount either in weight or numbers, and secondly exchange must be instantaneous. Such an exchange could occur when one person wishes to exchange a £20 note for four £5 notes. The effect of the two conditions here means that this person should receive the same total number of pounds (four multiplied by £5 which equals £20), and should receive this money at the same time as he gives the £20 note. Any violation of these two conditions would change the original objective of the currency exchange, for example a delay in delivery on one side would transform the "exchange" of £20 into a "loan" of £20.

The second type of the above two forms of currency exchange occurs when somebody wishes to exchange, for example, £20 into an equivalent amount in dollars. This exchange into a different currency requires only the condition of instantaneous delivery to be fulfilled, hence the number of dollars received can be different to the number of pounds given, but the two amounts must be exchanged instantaneously. The amount of dollars received will of course depend on the rate of exchange on the day itself.

### *Suftaja*

The facility of "suftaja" (bill of exchange) allows an individual to transfer money from one location to another without suffering the risk of transportation. The service is offered by an agent who has offices and cash reserves in both locations, in return for a fee. Cash can then be delivered to the office of the suftaja agent at the location of the payor, and paid to the payee named on the suftaja document at the other location. The condition for achieving this objective is that the sum transferred should be restricted to the same currency. The regulator should ensure that the first of the two above conditions relating to aş-şarf apply, taking into consideration that the places of payment and receipt are different. The charge for the service must be separate and distinct from the amount transferred.

<sup>430</sup> The traditional position of Islamic law is that the assets of a partnership should be liquidated before calculating the profit shares due to the partners. This avoids the difficulties that can arise when attempting to value project assets prior to liquidation.

<sup>431</sup> El Diwany, 2003, p. 111.

<sup>432</sup> El Diwany, 2003, p. 111.



*At-Takāful*

The objective of sharing risk among a large group of individuals, with the aim of reducing its impact at an individual level, is absolutely rational and permitted from the Islamic viewpoint. Likewise, saving or reserving a part of one's income against uncertain future needs, losses and accidents is also quite rational.

The conventional insurance market has responded to such needs over many centuries by offering a variety of products, most of which have certain flaws from the Islamic perspective. Central among these are the presence of *ribā* and *gharar* in the insurance contract, or in the assets into which insurance premiums are invested. For example, some scholars have argued that insurance is similar to gambling since a small premium is paid in return for nothing (in the case that the insured event does not occur) or in return for a large payout (in the event that the insured event does occur). This uncertainty is a classic case of *gharar*, hence the prohibition. Other scholars have argued that the payment of money now (the premium) in return for a larger amount of money later (the payout) is a form of *ribā*. Furthermore, where an insurance company collects premiums and invests them into interest-bearing instruments such as government bonds, then a further act of *ribā* is in evidence.

In modern times, the demand among Muslims for protection against loss has produced a variety of products going under the name "at-takāful" (Islamic insurance). These schemes typically operate on a mutual or not-for-profit basis where any profits made on invested premiums are returned to members, or to a reserve held on behalf of future claimants. The premiums are not seen as "payments for insurance cover", but rather as donations made to the insurance fund for the benefit of those members who may suffer loss in the future. Such donations are invested in *shari'ah* compliant instruments. Of course an agent may be employed to manage the administrative operations of the insurance company in return for a fee, and an investment manager may be employed to manage the invested premiums in return for a profit share (in other words under a *muḍārabah* contract). However, what is generally prohibited is for an operator of an Islamic insurance fund to derive its profit from sharing

the "surplus" (this being the excess of premiums received over claims paid out) as this would be a form of *gharar*.

The usefulness of the statistical approach in insurance is that it reduces the forecasting error of the value of claims to a highly predictable amount by aggregating a large number of cases. On this basis, it has occasionally been argued that *gharar* can be removed from the insurance process. Statistical calculations, for instance in respect of the likelihood of a person's death or the likelihood of car theft, will certainly enter into the considerations of those who manage an Islamic insurance fund. However, a key difference is that a conventional insurance fund will accept such risks in return for a fee (the premium), while an Islamic insurance fund will commit to compensating the affected member with a donation made on behalf of the other members of the scheme. While Islamic law sees the former case as a trading of risk, the latter is seen as an act of charity (and one that is only enacted if the pool of funds within the Islamic insurance scheme is sufficient). This is true mutuality, although it should be noted that many Islamic insurance operations have diluted the principle in modern times.

**Goods for Goods Applications**

As a result of the present structure of international finance, the rules applying to goods for goods transactions may not seem to have a major application in the field of commerce. However, barter is still part of international business activity and can play a significant role for small volumes of trade in less developed economies, especially where the use of money is problematic. International barter trade may create situations where the Islamic rules on goods for goods trading are relevant. Take a situation in which country A buys £100 of wheat from country B, country B buys £100 of computers from country C, and country C buys £100 of barley from country A. Each of this series of transactions could be structured as a "cash now for goods now" transaction, or as a "goods now for payment later" transaction, or as a three way barter trade. As a series of goods now for payment later trades, a system of mutual credit clearing could be used to clear all three debts against the others without

the need for settlement in monetary units. As a series of connected barter trades, an international organisation might develop standardised terms to assist with negotiation processes and contract completion. Here, the completion of the three trades simultaneously could produce a "wheat for barley" transaction for country A, and this would fall under the scope of the usury regulations in shari'ah.

#### *Al-Muqāyādah*

We have already seen that the Prophet (s.a.w.) prohibited a new type of ribā which is known as "ribā al-faḍl" (translated as "preferential usury", or sometimes as the "usury of surplus") and that the ḥadīth relating to it includes only six types of goods which are gold, silver, wheat, barley, dates and salt.<sup>433</sup> It is clear that the Prophet (s.a.w.) accepted the use of gold and silver as money, and that their barter is considered as currency exchange. From the ḥadīth of Abu Sa'id al-Khudrī, we can see that barter among the other four items is also permitted, subject to specified conditions.

Some modern commentators have suggested that the wisdom behind requiring like for like exchanges of dates for dates in the ḥadīth of Bilal<sup>434</sup> is to achieve justice for the buyer and seller in terms of the value that they receive. El-Gamal<sup>435</sup> refers to this as a "mark-to-market" process, and it operates as follows. If person A wishes to sell one cup of dates to person B, then he can only do so in exchange for one cup of dates to be received from person B. In the event that Person B offers him poorer quality dates in exchange, then Person A will naturally see the exchange as a poor bargain. His only option in this case is to sell his good dates for money and then buy the poor quality dates, in which case there is no shari'ah restriction on him buying two cups of poor quality dates. Why then the complexity? The reason, El-Gamal asserts, is to ensure that both parties receive fair value for their dates. An exchange of dates for dates may not achieve this, whereas a sale of dates for money is more likely to expose the true value of each set of goods by testing it in the market.

<sup>433</sup> See Section 3.6.

<sup>434</sup> Also shown in Section 3.6.

<sup>435</sup> El-Gamal, 2001.

## Money for Goods Applications

In this category there are three types of transaction, as follows:

### *Bay' as-Salam or Bay' as-Salaf*

The purpose of "bay' as-salam" or "bay' as-salaf" (forward purchasing) is to acquire commodities for future delivery in return for payment of money in the present. This is common in industries where the production process depends on consistent supplies of raw materials, for example where a bakery wants to secure supplies of wheat for the coming year. Farmers likewise may wish to agree a price for crops to be grown over the coming year. As payment is received immediately, the farmer may then be able to pay some of his production costs (seeds, fertilisers, workers and so on) through to harvest time.

The conditions of the bay' as-salam transaction are as follows:

- the goods must be clearly defined,<sup>436</sup> hence scholars have generally required that the object of sale is restricted to homogeneous items (wheat, salt, dates, oil, non-precious metals, and so on);
- a date of delivery must be specified;
- payment must be made in advance.

Ibn 'Abbas narrated that:

*The Prophet came to Medina and the people used to pay in advance the price of dates to be delivered within two or three years. He said (to them), 'Whoever pays in advance the price of a thing to be delivered later should pay it for a specified measure at a specified weight for a specified period'.<sup>437</sup>*

Shu'ba also narrated that Muhammad or 'Abdullah bin Abu al-Mujalid said: *Abdullah bin Shaddad and Abu Burda differed regarding as-Salam, so they sent me to ibn Abi A'uja and I asked him about it. He replied, 'In the lifetime of Allah's Apostle, Abu Bakr and Umar, we used to pay in advance the prices of wheat, barley, dried grapes and dates to be delivered later. I also asked ibn Abza and he, too, replied as above'.<sup>438</sup>*

<sup>436</sup> Some of the Hanafi scholars require that, in the case of agricultural commodities, these are generally available in the marketplace or approaching maturity on the farmer's land in order to reduce the risk of a failure to deliver.

<sup>437</sup> Al-Bukhārī, *op. cit.*, Vol 3, Book 35.

<sup>438</sup> *ibid.*



*Bay' al-Ajal*

The purpose of "bay' al-ajal" (installment purchase) is to allow receipt of the goods in the present for payment to be made in the future, either wholly or in instalments. The conditions are:

- the price must be specified;
- the timing of payment must be specified.

In a ribā-free economy, most saved money would flow into the investment stream, thus increasing production and reducing prices. Free competition would encourage instalment sales as there would be no fear of money devaluation.

*Bay' an-Naqd*

The sale of goods now for money now (cash purchase) is an everyday type of transaction. The only condition here is to have a conventional rule to signify that the transaction has been completed (for example, a handshake or a contract signing) following which the goods become the property of the buyer, and the price belongs to the seller.<sup>439</sup>

**6.3 Related Issues**

Although the Transaction Map Theory includes all transactions between money and goods, some financial agreements have not been covered in the above discussion despite their popularity. Among these is the well-known home mortgage agreement, and the murābaha contract widely used in Islamic banking.

**Mortgage**

In Western countries, the word "mortgage" has a common meaning and a specific legal meaning. As for the legal meaning, it is similar to the Islamic word "rahn" which refers to a collateral or pawn given to secure a debt obligation. The rahn should be treated as an "amānah" (trust) in the hands of the creditor. If maintenance of the pawned object incurs a

<sup>439</sup> For example, in most supermarkets today, the goods remain the property of the seller until the buyer has paid for them and passed the cashier point.

cost, the lender is then entitled to enjoy its benefits against those costs. For example, a goat given as a rahn will require feeding, in return for which the goat's milk will be seen as belonging to the creditor.

As for the common meaning of the word "mortgage", it refers to at least three agreements which are connected together as follows:

- a bank loan agreement based on a rate of interest provided specifically to buy a particular property, usually a house;
- an agreement to pawn the house as security against the loan, which gives the bank the right to repossess and sell the house if the borrower fails to pay his loan instalments;
- an enforced agreement on the borrower to insure the house in order to secure compensation for the value of the house against damage by fire, flood or other event.

According to TMT, the main objective for having a mortgage is to buy a property and pay the price in instalments. This objective should be achieved by the instalment purchase transaction discussed under the money for goods category, without interference from a third party. It would of course be permissible for the buyer of the house to give it in mortgage to the seller, as security for the instalments owed by the buyer to the seller.

For this alternative to become widely available, the prohibition of ribā would need to be applied to the activities of the financial sector. Such a law would increase the use of instalment sale by vendors of properties, while eradicating the involvement of money lenders in the housing market. Where TMT is applied, a rise in house prices will stimulate a flow of investment into the construction of new houses (up to an amount equal to the aggregate surplus of money saved by the society). This will occur as the TMT shari'ah investment structures provide investors with more attractive profits for investing into the house-building sector. The new housing stock thereby provided will eventually act to stabilise or reduce house prices. The interest cost which currently arises due to the intervention of a third party<sup>440</sup> between the buyer and the seller is absent where the TMT conditions

<sup>440</sup> The third parties in this case are the many interest-based bank lenders presently active in the mortgage market.

are applied. The absence of this cost constitutes a gain for the non-financial sector, while the increased use of shari'ah investment structures will generate new fees for the financial sector.

### Al-Murābaha

The original purpose of "al-murābaha" (sale at a disclosed profit margin) was to sell goods at their cost price plus an agreed profit. This type of agreement was developed to improve transparency, so that buyers could know how much profit was being charged of them by sellers, and also as a trading mechanism to suit wholesale traders who conclude transactions at a margin over a known cost price.<sup>441</sup>

Under the challenge to provide ribā-free financial products and compete with usurious financial systems, Islamic financial institutions have adapted this type of agreement to finance trade or to sell capital goods by instalments. They apply a number of conditions to satisfy their shari'ah supervisory committees and clients, however there is a substantial difference between murābaha as it was originally practised and as it is practised by Islamic banks today.

Firstly, there is substantial evidence that the earliest murābaha agreements among Muslims were cash settled in full on the spot, whereas modern murābaha agreements are settled in instalments.<sup>442</sup> Secondly, modern murābaha transactions are conducted not as a single money for goods transaction, but instead as two money for goods transactions placed back to back. For example, a bank will buy a car for \$10,000 cash paid to a dealer, and immediately sell the car to the bank's client for \$15,000 payable in instalments over five years. If practised as two completely separate transactions, such activity would be permitted. However, in practice, Islamic banks require the client to promise to buy the car before the bank purchases the car from the dealer. This

441 Al-Gindy, 1986. Large merchants, having the capacity to negotiate good prices for large quantities of particular items, might be happy to resell goods to other traders for a small profit in order to expand their market and achieve faster distribution. Meanwhile, the buyer could expect similar treatment from his fellow traders in different commodities. The specification of cost-plus margins at trading time could substantially simplify such trading activities.

442 Nyazee, 2010.

transaction is called murābaha to the purchase orderer and provides an Islamic bank with a return on its capital that looks very much like an interest-based loan. In this case, the bank gives \$10,000 now (to the dealer) and receives \$15,000 later (from the client).

In some cases, the similarity between murābaha and interest-based lending is even more apparent. For example, a buyer might acquire goods under murābaha (settled in instalments) and sell them immediately for cash. Where it is organised in advance, this type of transaction is called "organised tawarruq", and although many scholars consider it to be ribā it is a substantial part of the balance sheet of many Islamic banks.<sup>443</sup>

The critical issue here is that the murābaha transaction belongs within the field of trade (in other words, the buying and selling of goods) not the field of investment. The laws applying to trade and investment are completely different, as is their structure within the Islamic economy. To attempt to use murābaha as an instrument of investment is as implausible as attempting to use a contract of muḍārabah to sell goods. Neither are Islamic banks equipped to fulfil the functions of a merchant, which generally requires one to buy goods cheap and sell them more expensively. Rather, the stock in trade of an Islamic bank is money, and it is a gain on this money which they seek to obtain.

Saleem states from his practical experience that:

*Murābaha historically was a crude trading practice designated for transactions between real sellers and real buyers involving physical goods, mostly commodities. Banks are not trading organizations; they take deposits from the public and either lend or invest such funds as custodians. By structuring a financing transaction and disguising it as a trading transaction the banks are simply trying to fool someone.*<sup>444</sup>

### Price, Rent and Usury

The claim that usury is like rent, in other words that it is the price for using money, is false. A price is paid in return for the ownership of something that has a use value, with this use value being obtained either by destruction (as in the case of eating an apple) or through

443 Al-Gindy, 1986, p. 19.

444 Saleem, 2005, p. 24.



depreciation over a period of time (as in the case of clothes or cars). In contrast, rent is paid when temporary possession is taken of something in order to benefit from its use value while ownership of the thing itself is not transferred. At the end of the rental period, possession of the object is returned to the owner. Rent is therefore seen as a payment made in return for the enjoyment of a use value.

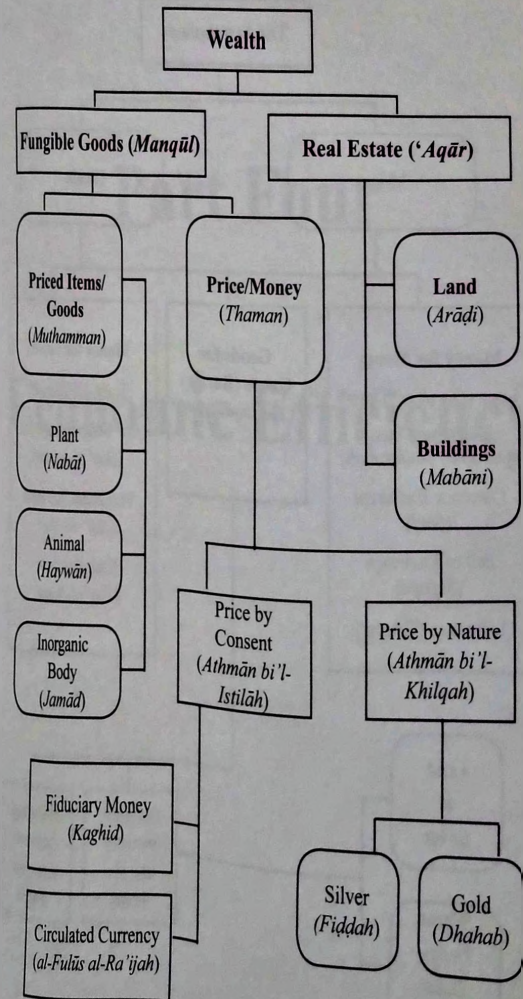
Christian theologians have recognised that if interest is to be seen as the price of renting money, then there is a contradiction between the legal treatment of money and that of non-monetary assets. Cleary relates the argument that when an animal is rented, the loss of the animal is a cost borne by the owner, yet when borrowed money is lost, then the loss is the borrower's. If interest is indeed the price of renting money, then in order to be consistent with the rules of rental, the loss of borrowed money should be a cost that is borne by the lender. Since this is not the case, a loan of money must be treated as a sale, and the price paid by the borrower should therefore be neither more nor less than the amount "borrowed". Cleary comments:

*It seems then to be true that the so-called loan of money is really a sale, and that a loan of meal, wine, oil, gunpowder and similar commodities - that is to say commodities which are consumed in use - is also a sale. If this is so, as I believe it is, then loans of all these consumptible goods should be governed by the principles which regulate sale-contracts. A just price only may be taken, and a just price may be demanded - that is to say the loan and the return must be truly equivalent.<sup>445</sup>*

By permitting rental ("ijārah") contracts, Islamic law recognises that the body of an object can be owned separately from the use that it provides. Evidence in favour of ijārah is seen in Qur'ān 28:26-27 and in Qur'ān 65:6, and also in the ḥadīth narrated by ibn 'Umar that the Prophet (s.a.w.) advised employers to "pay the hired worker before his sweat dries". However, the rental of money is prohibited. In Islam, money is seen as being different from other assets because its use consists of being given up completely in exchange for something that has a use value. The object thereby obtained by the buyer (or its use value) can then be resold or used by the buyer himself. Hence, while both apples and gold have exchange value, the use of the former requires its destruction, and the use of the latter requires the transfer of its ownership.

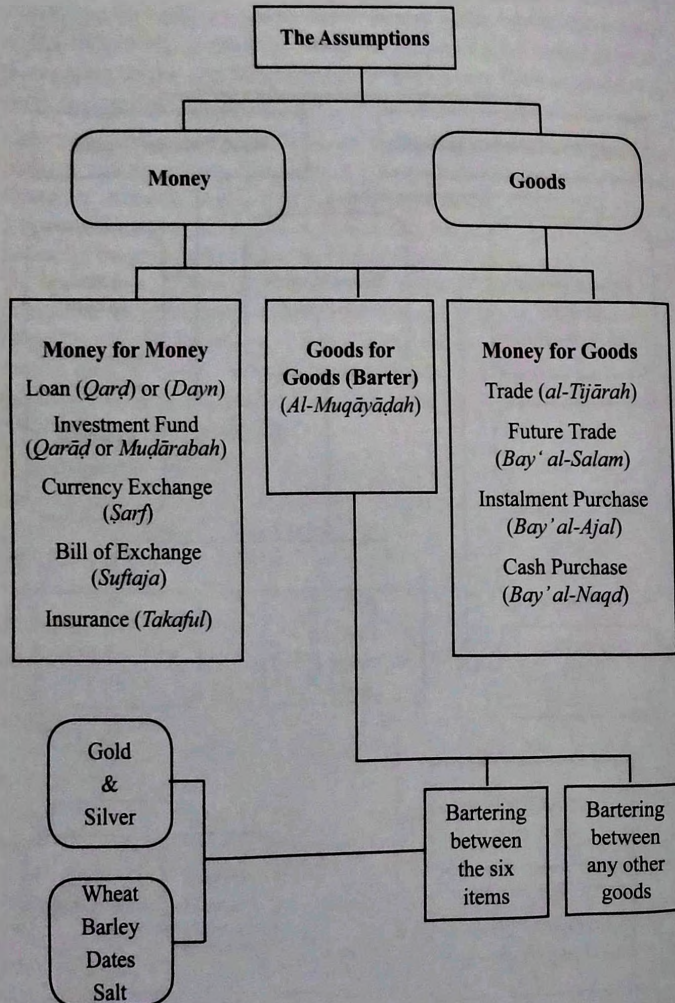
445 Cleary, 2000, p. 186.

#### 6.4 Wealth Schematic





## 6.5 Transaction Map Theory Schematic



## Part Four

## Economic Efficiency



## 7 INTOXICATION AND GAMBLING

### 7.1 Introduction

While Islam organises the monetary and financial side of the economy to achieve economic justice, it prohibits intoxication and gambling to achieve an overall efficiency in economic productivity.

Throughout history, it has been observed that human beings have a high propensity for consuming intoxicating substances and for gambling. These practices have taken many different names and forms. Before Islam, Arabs used to indulge in the consumption of intoxicants and had their own ways of gambling. Islam came with a clear prohibition of both, confirming that intoxicants and gambling both have a positive side but also stating that these positives are outweighed by the negatives. The social and economic magnitude of the negative effects has led to an absolute prohibition.

The way Islam dealt with these two related phenomena is very important. First, the close relationship between them was recognised, as well as the human tendency towards them, and their final prohibition was brought into force in gradual stages. This provided sufficient time for members of society to understand the reasons for the prohibition, namely the imbalance that exists between the positive and negative effects of these two practices. It also allowed them time to liberate themselves from such destructive habits and to accommodate themselves to the resulting changes in the social and economic structure.

It is worth recognising that human beings have a tendency to accept their surrounding culture as a norm, and for this reason the consumption of alcohol and gambling are seen as acceptable activities in many societies. As if to demonstrate this, in *An Inquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith writes:

*It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.*<sup>446</sup>

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<sup>446</sup> Smith, *op. cit.*, p. 15.

Smith, who also authored the *Theory of Moral Sentiments* in 1759, thereby placed the butcher and the baker on an equal footing with the brewer and presumably thought little of it. While in one society a teacher of moral sentiments fails to demonstrate the negative role played by the brewer, in another the Prophet Muhammad (s.a.w.) challenges the practice and condemns it.

## 7.2 The Prohibition of Intoxication in Qur'ān and Sunnah

The Arabian Peninsula was the starting point of Islam. To change that society into an Islamic society required a comprehensive understanding of the reality of its social and economic aspects, beliefs and cultural habits. The prohibition of intoxicants was a major challenge to Arabian society. Alcohol consumption was widely practiced and regarded as a social value to be proud of, in addition to which many people were making a profit from trading in intoxicants. Given these sensitivities, Allah (s.w.t.) introduced the prohibition in four stages as follows.

### Stage One

The first stage of the prohibition of alcohol consumption in the Qur'ān can be seen as an introductory measure. This is clear from the following verse:

*And Allah sends down rain from the skies, and gives therewith life to the earth after its death: Verily in this is a Sign for those who listen. And verily in cattle (too) will ye find an instructive Sign. From what is within their bodies, between excretions and blood, we produce, for your drink, milk, pure and agreeable to those who drink it. And from the fruit of the date-palm and the vine, ye get out strong drink, and wholesome food: behold in this also is a sign for those who are wise.*<sup>447</sup>

The expression "strong drink" is not an adequate interpretation of the Arabic word "sakar". Rather, it is an amalgam of something that causes drunkenness and the fermentation process which produces liquor. It is this which the verse contrasts with pure and agreeable milk. The order of verses is also instructive. Verse 65 describes the Divine factor of production which we observe daily when rain falls and gives life to

<sup>447</sup> Qur'ān 16:65-67.

the earth by enriching it with many varieties of plants, and verse 66 shows how Allah (s.w.t.) uses the consumption-production process to produce milk from animal feed to provide goodness to human beings. After verse 67, verses 68 and 69 then refer to one of the most efficient consumption-production operations on earth, which is the production of honey by the bee (after which the Chapter is named).

These verses, revealed in Makkah before the legislative period in Madinah, were a delicate way of bringing the subject of intoxication into consideration, by showing how unwise human uses of the consumption-production process can make an otherwise beneficial and naturally produced substance into one that is harmful to human beings.

### Stage Two

In the second stage of the prohibition of alcohol, a different message was promoted, one that referred to intoxication and gambling together in the form of a question asked to the Prophet (s.a.w.). The question was short and direct, asking for a general opinion rather than a legal judgment. The answer came not to establish any legal position for either activity, but to confirm that both intoxication and gambling contain serious sins and evil as well as having benefits for people. This confirmation came within a statement given by Allah (s.w.t.), which rules out any doubt concerning its contents and requires deep consideration:

*They ask thee concerning wine and gambling. Say: In them is great sin, and some profit, for men; but the sin is greater than the profit. They ask thee how much they are to spend: Say: What is beyond your needs. Thus doth Allah make clear to you His sign: in order ye may consider.*<sup>448</sup>

### Stage Three

In this third stage the subject of intoxication is addressed in a more specific way, and the element of belief is now introduced in preparation for the forthcoming legislation. Allah (s.w.t.) addresses the subject as follows:

*O ye who believe! Approach not prayers in a state of intoxication, until ye can*

<sup>448</sup> Qur'ān 2:219.



*understand all that ye say, nor in a state of ceremonial impurity except when you are passing by (through the mosque), until after washing your whole body. If ye are ill, or on a journey, or one of you cometh from the privy, or ye have been in contact with women, and ye find no water, then take for yourselves clean sand (or earth) and rub therewith your faces and hands. For Allah doth blot out sins and forgive again and again.*<sup>449</sup>

From this verse we understand that belief can play a very important part in controlling human behaviour. At this stage, prior to the enforcement of the final legal prohibition, a choice is given to the believers either to retain their belief (which obliges them to pray five times a day) or to indulge in drinking which will result in them refraining from prayer. Another message conveyed by this verse is that a Muslim believer is required to adhere to a high standard of manners and to act in a way that reflects his or her beliefs which require sobriety and self-control at all times.

#### Stage Four

In this fourth stage, a final and absolute prohibition is declared. Here, Allah (s.w.t.) conveys in strong wording a clear order to refrain from both intoxicants and gambling:

*O ye who believe! Intoxication and gambling, sacrificing to stones, and (divination by arrows, are an abomination of Satan's handiwork. Eschew such (abomination) that ye may prosper. Satan's plan is (but) to excite enmity and hatred between you, with intoxicants and gambling, and hinder you from the remembrance of Allah, and from prayer. Will ye not then abstain? Obey Allah, and obey the Messenger, and beware (of evil): If ye do turn back, know ye that it is Our Messenger's duty to proclaim (the Message) in the clearest manner.*<sup>450</sup>

#### The Prohibition of Intoxicants in the Sunnah

In Ṣaḥīḥ al-Bukhari, in the Book of Drinks, we find that:

*'Aa'isha narrated that the Prophet (s.a.w.) was asked about al-Bataa which was a kind of liqueur, the Prophet said: 'Any drink that causes intoxication is haram (unlawful).'*<sup>451</sup>

449 Qur'ān 4:43.

450 Qur'ān 5:90-92.

451 Abu Dawūd, Book 26, No. 3679.

We notice that the Prophet (s.a.w.) did not comment on the kinds of drink that are prohibited, nor what they are made of or how they are made. The emphasis is instead on the effect of intoxicating drink upon the individual's state of mind.

In Sunan Abu Dawūd, it is stated that ibn 'Umar narrated that Prophet Muhammad (s.a.w.) said:

*God cursed liquor and whoever drinks it and whoever serves it and whoever sells it and whoever buys it and whoever presses it and whoever it is pressed for and whoever carries it and whoever it is carried to.*<sup>452</sup>

*Jabir ibn Abdullāh narrated that the Prophet (s.a.w.) said: 'Whatever causes intoxication by drinking too much of it, a little of it is unlawful.'*<sup>453</sup>

*U'm Salama said that, 'the Prophet (s.a.w.) has prohibited all intoxicants and mufattir (any substance that may cause a state of being temporarily inactive mentally and, or physically and is normally addictive).'*<sup>454</sup>

The gradual prohibition of alcohol in the Qur'ān and the responses of the Prophet's companions to it is reflected in the narration concerning 'Umar ibn al-Khattab, one of the companions of the Prophet (s.a.w.) and the second of the Rightly Guided Caliphs:

*'When the prohibition of wine (was yet to be) declared, 'Umar said: 'O Allah, give us a satisfactory explanation about wine'. So the following verse of Surat al-Baqarah was revealed: They ask thee concerning wine and gambling. Say: In them is great sin...' 'Umar was then called and it was recited to him. He said: 'O Allah, give us a satisfactory explanation about wine'. Then the following verse of Surat an-Nisā' was revealed: 'O ye who believe! Approach not prayers with a mind befogged ...' Thereafter, the herald of the Apostle of Allah would call when the (congregational) prayer was performed: 'Beware; one who is drunk should not come to prayer'. Umar was again called and it was recited to him. He said: 'O Allah, give us a satisfactory explanation about wine'. This verse was then revealed: 'Will ye not then abstain?' Umar said: 'We abstained.'*<sup>455</sup>

<sup>452</sup> Abu Dawūd, Book 25, No. 3674.

<sup>453</sup> Abu Dawūd, Book 25, No. 3682.

<sup>454</sup> Abu Dawūd, Book 25, No. 3686. This "Mufattir" would include any drug, soft or hard, in any shape or form, regardless of its name.

<sup>455</sup> Alcohol According to Islam and Sunnah, 2008.

### 7.3 Gambling and the Concept of the Gambling Machine

A gambling machine is a business opportunity which has two main elements of expense. The first element is the price of the machine itself, and the second is the running costs of the machine, including the rental of the premises in which it is housed. Understanding the operation of the gambling machine and how such a machine makes a profit, will help us to understand the principle behind gambling.

We need to begin by asking the question "Can anyone win against the gambling machine?" The apparent answer to this question is "Yes". It will be observed that from time to time somebody puts a coin in the slot of a gambling machine, perhaps even for the first time, and receives more money in return than has been put in. A second question is "Can the gambling machine lose?" The answer to this question is "No". This is because the gambling machine is a business opportunity which is designed to be profit-making. It is not there to lose money.

Within the conflict between these two answers lies the concept of the gambling machine and it can be explained as follows. Winning against the gambling machine is not an exact description of what is happening because the winning occurs against other players rather than against the machine itself. The machine is merely a medium for playing, and that is why the machine does not lose. It is an instrument that attracts players to play against each other, and is pre-programmed to keep a percentage of the money staked so as to cover the two aforementioned expenses plus a profit, and then to distribute the rest of the money randomly among the gamblers.

So the concept of gambling contains two elements. The first element is an abuse of the human tendency to compete, stimulated by the chance of winning a large amount of money against a small stake.<sup>456</sup> The second element is a random redistribution of wealth for one purpose only, which is to take a percentage cut through the distribution operation. Any transaction based on these two elements can be considered gambling.

<sup>456</sup> This element fits within the concept of deception in *gharar* because the money paid into the machine is given in return for nothing but a chance of winning a prize (see Transaction Map Theory in Chapter 6).

Amazingly, man-made legitimacy for gambling is based only upon giving players an equal opportunity to win, regardless of how slim that chance is. The immorality of randomly redistributing wealth in exchange for a percentage cut, and thus profiting from other people's misery, is ignored.

### The Prohibition of Gambling in the Qur'an

The prohibition of gambling in Islam featured a gradual procedure similar to that of the prohibition of intoxication. Before Islam, the Arabs had certain ways of gambling. Al-Razi writes in his tafsir that they would use ten arrows, each with a special name, all having different shares allocated to them, and some without any share at all. These arrows would be shuffled, an arrow would then be picked for each person, and in this way the shares of each would be determined. Whosoever happened to acquire an arrow without a share would receive nothing at all. Another custom was that a camel would be slaughtered and portions distributed according to the shares determined by the arrows. A person who was unlucky would not only be deprived of the camel meat but would also have to pay for the camel. In the Qur'an, the word "maysir" refers to the camel that was slaughtered and distributed according to the gambling process, and "azlām" refers to the way in which arrows were used to define shares.<sup>457</sup>

Initially, the revelation on gambling made clear its disadvantages, and only when this had been understood was the prohibition itself revealed. We have already seen that in the early days of Islam, the Prophet (s.a.w.) was asked about the issue of gambling and alcohol. Allah (s.w.t.) answered in the Qur'an as follows:

*They ask thee concerning wine and gambling. Say: 'In them is great sin, and some profit, for men; but the sin is greater than the profit'...*<sup>458</sup>

In this verse, the prohibition is not stated directly, but then Allah (s.w.t.) revealed the following verse:

*O ye who believe! Intoxication and gambling, sacrificing to stones, and (divination by)*

<sup>457</sup> Omar, 1985, Vol 2, p. 231.

<sup>458</sup> Qur'an 2:219.



arrows, are an abomination of Satan's handiwork. Eschew such (abomination), that ye may prosper.<sup>459</sup>

This prohibition has been given with such assurance that Imām al-Razi states the following in his tafsīr:

Firstly, the Arabic word 'innaṃā' has been placed in the beginning of the verse. In Arabic, this creates emphasis on what is mentioned afterwards. Secondly, these prohibited things have been classified as being 'rijs' (impure), from which natural disposition abstains. Thirdly, they have been branded as satanic acts. Fourthly, their severity has been categorised at the same level as idol worshipping (shirk) in the sense that they all are links in a single chain.<sup>460</sup>

After mentioning that they are impure, Allah (s.w.t.) says:

Keep away from them.<sup>461</sup>

The Qur'ān does not end the discussion at this point, but continues in 5:91 where Allah (s.w.t.) states conclusively that Satan wants to ruin the worldly life of human beings as well as their Hereafter. Alcoholic drink and gambling are exposed here as sowing the seeds of hatred and hostility between human beings in the worldly life. Their evil effects on physical and psychological health are many, and they can distract an individual from obligatory duties such as prayer and the remembrance of Allah (s.w.t.).

### The Prohibition of Gambling in the Sunnah

Abu Hurayrah narrated that the Prophet (s.a.w.) said:

... and whoever says to his companions, Come let me gamble, then he must give something in charity (as an expiation of such a sin).<sup>462</sup>

According to some Muslim scholars, this penalty has to be implemented even if the person was joking. Imam Muslim repeats al-Bukhari's ḥadīth, assuring us of its validity.

Another ḥadīth of the Prophet (s.a.w.) prohibits activities that are similar to gambling. Abu Hurayrah narrated that the Prophet (s.a.w.) said:

459 Qur'ān 5:90.

460 Omar, *op. cit.*, Vol. 6, p. 84.

461 Qur'ān 5:90.

462 Al-Bukhārī, Book 8, No. 314.

The Messenger of Allah (s.a.w.) forbade the 'sale of the pebble' [*hasab*] (the sale of an object as determined by the throwing of a pebble), and the sale of *al-gharar*.<sup>463</sup>

Ibn Taimiyah explains *gharar* as something whose consequences are unknown, and that it involves the unlawful gain of one party at the expense of another.<sup>464</sup>

## 7.4 Economic Significance of Intoxication and Gambling

### Opportunity Waste

In Christopher Johnson's *Measuring the Economy*, three methods of measuring the performance of an economy using Gross Domestic Product (GDP) are mentioned. These three methods are output-based GDP, expenditure-based GDP and income-based GDP.<sup>465</sup> These methods produce a statistic for the total production of the economy which assumes that all of it has a positive effect on those living within it. But from an Islamic viewpoint, some forms of production, such as intoxicants and gambling services for example, are seen as having an effect that is more negative than positive. From this perspective, any economy that has the capacity to produce intoxicants and gambling services contains a large negative production component. A new indicator therefore needs to be defined in order to help measure economic production more adequately and provide a realistic reading for GDP. It is in this context that I would like to suggest the concept of 'opportunity waste'.

The opportunity waste is the capacity of a unit of production (whether substance, labour or capital) to produce something which has a harmful effect upon members of society. For example, the production of intoxicants requires inputs such as wheat, barley, apples and so on. A casino requires land, capital, machines, labour and so on. Tobacco products also fit this concept very well. A calculated value for opportunity waste would recognise the loss of economic benefit

463 Sahih Muslim, Book 10, No. 3614.

464 El Diwany (ed.), 2010, p. 120.

465 Johnson, 1988.

that results when productive capacity is used for a harmful rather than a positive effect. It could be presented as an output gap, reflecting the difference between the benefits which could have been realised through the best use of resources, and what is actually realised through their current usage. This proposal requires extensive research that is not within the scope of this work, but which could produce a more suitable indicator for measuring economic performance.

## 7.5 Intoxication, Gambling and Society

Islamic prohibitions are believed to exist for the benefit of human beings and their societies. In this light, it is important to examine the negative effects of both intoxication and gambling on human society in order to appreciate the importance of their prohibition in Islam. The discussion also highlights the importance of the proposal to exclude the output of such items when measuring economic performance.

### Physical Health

According to a 2004 World Health Organisation report, most health professionals agree that alcohol affects practically every organ in the human body. Alcohol consumption was linked to more than 60 diseases in a series of recent studies. The report states that alcohol has consistently been related to the risk cancer of the mouth (lip and tongue), pharynx, larynx, hypopharynx, oesophagus and liver. Alcohol has also been estimated as the leading cause of liver cirrhosis in developed economies. Prenatal alcohol exposure affects pregnant women and their infants, and in this regard the report states that:

*Alcohol consumption during pregnancy is related to various risks to the fetus, which include gross congenital anomalies and Fetal Alcohol Spectrum Disorders (FASD), which include conditions such as Fetal Alcohol Syndrome. FASD ranges from individual anomalies at one end to serious neurobiological dysfunctions, including mental retardation, at the other. The prenatal teratogenic effects of alcohol also include lethal consequences. They comprise spontaneous abortion, low birth weight, fetal damage, prematurity and intrauterine growth retardation.*<sup>466</sup>

<sup>466</sup> World Health Organisation, 2004, p. 39.

The Institute of Alcohol Studies reports that alcohol causes nearly 10% of all ill-health and premature deaths in Europe:

*The World Health Organisation's Global Burden of Disease Study finds that alcohol is the third most important risk factor, after smoking and raised blood pressure, for European ill-health and premature death. Alcohol is more important than high cholesterol levels and (being) overweight, three times more important than diabetes and five times more important than asthma.*<sup>467</sup>

The European Comparative Alcohol Study finds that:

*... as a country's alcohol consumption goes up and down, the harm done by alcohol goes up and down in parallel. 2. This applies to all European countries. Further, the higher the alcohol consumption of a country, the greater the harm from alcohol 3. In Britain, deaths from liver cirrhosis (largely caused by alcohol) increased steeply between 1987 and 2001. Cirrhosis deaths in Scotland more than doubled, and are now among the highest in Western Europe ... In England and Wales, cirrhosis deaths rose by two thirds. Deaths in women increased by almost half during this period. These increases were the steepest in Western Europe, and reflect the fact that alcohol consumption was rising significantly in Britain during this period while it was falling in the mainly wine drinking countries of southern Europe.*<sup>468</sup>

### Psychological Health

The effects of alcohol go beyond physical health and seriously impact psychological health. The 2004 WHO report elaborated that the evidence indicates a clear and consistent association between alcohol dependence and disorders such as depression and other related psychological disorders. Accidents and intentional injuries are associated with intoxication through physical and psychological pathways. Intoxication is also connected to social and family problems and a lowering of productivity in the workplace. The following extracts from the WHO report amply illustrate these various ills:

*... alcohol use has been associated with increased risk of injury in a wide variety of settings including road traffic accidents (vehicles, bicycles, and pedestrians), falls, fires, injuries related to sports and recreational activities, self-inflicted injuries or injuries resulting from interpersonal violence.*<sup>469</sup>

<sup>467</sup> Institute of Alcohol Studies, 2013.

<sup>468</sup> The ECAS findings are collated in Österberg, E. & Karlsson, T., 2002.

<sup>469</sup> World Health Organisation, *op. cit.*, p. 46.



There are clear biological mechanisms [showing] why alcohol is related to injury. Moderate doses of alcohol have been demonstrated in controlled experimental studies to have cognitive and psychomotor effects that are relevant to the risk of injury, such as reaction time, cognitive processing, coordination and vigilance.<sup>470</sup>

Studies on violence have repeatedly shown that alcohol consumption precedes violent events, and that the amount of drinking is related to severity of subsequent violence.<sup>471</sup>

Alcohol may have an effect on the serotonin (5HT) and GABA brain receptors that may reduce fear and anxiety about the social, physical or legal consequences of one's actions. Alcohol also affects cognitive functioning, leading to impaired problem solving in conflict situations and overly emotional responses or emotional ability.<sup>472</sup>

There is ample evidence that people with alcohol dependence and problem drinkers have higher rates of sickness absence than other employees.<sup>473</sup>

It is well established that drinking can severely impair the individual's functioning in various social roles ... parental drinking is correlated with child abuse and impacts a child's environment in many social, psychological and economic ways. Drinking can impair performance as a parent, as a spouse or partner, and as a contributor to household functioning ... time spent while drinking often competes with the time needed to carry on family life. Drinking also costs money and can impact upon resources particularly of a poor family, leaving other family members destitute.<sup>474</sup>

### Addiction

Both gambling and intoxication can be addictive and such addictions can intensify the aforementioned physical and psychological problems. According to the Institute of Alcohol Studies, a psychoactive drug is "any substance that affects brain function" and alcohol is considered to be the second most widely consumed psychoactive substance in Britain. The Institute reports that between 1963 and 2005, per capita consumption of alcohol in the UK almost doubled:

470 *ibid.*, p. 46.

471 *ibid.*, p. 47.

472 *ibid.*, p. 48.

473 *ibid.*, p. 59.

474 *ibid.*, p. 60.

Approximately 90 per cent of the adult population consume alcohol at least sometimes.

A quarter of 11-15 year olds report drinking alcohol in the previous week.

6.4 million adult men and women respectively drink up to 50 and 35 units of alcohol per week. A further 1.8 million people drink over 50 (35) units per week.

7% of UK adults are dependent on alcohol at any one time – equivalent to approximately 2 million people.<sup>475</sup>

The report highlights an important link between gambling and drinking:

Gambling is the most widespread non-substance related behavioural addiction in Britain. The 2007 British Gambling Prevalence Survey found that 68% of the population, that is about 32 million adults, had participated in some form of gambling activity within the past year. This compared to 72% (about 33 million adults) in 1999. Around 0.5 to 0.6 per cent of the adult population were estimated to be problem gamblers, equating to approximately 250,000 people. In the 2007 survey, problem gambling was associated with being male; single, separated or divorced; being young (aged 16-24); regular parental gambling; having fewer educational qualifications; being in poorer health; and being Asian/Asian British or Black/Black British. Heavier drinkers were reported as being among those having more favourable attitudes to gambling and it has previously been reported that problem gamblers also often drink heavily. A 2007 report from the BMA states that the relatively low prevalence of gambling in the UK has probably been due to restricted opportunities for gambling, but that the passage of the Gambling Act 2005, liberalising the gambling laws and introducing supercasinos will probably increase the number of problem gamblers. The British Medical Association called for problem gambling to be recognised as a medical condition and, therefore, for treatment to be made available on the National Health Service, similar to drug and alcohol services.<sup>476</sup>

From the above it appears that young people are facing the twin perils of alcohol consumption and gambling to a very substantial degree:

The statistics are alarming. A survey of adolescents found that more than 80 percent of those between 12 and 17 say they have gambled in the last 12 months. More than 35 percent say they gamble at least once a week. Clearly, gambling addiction is not just an adult problem.<sup>477</sup>

475 Institute of Alcohol Studies, 2007.

476 *ibid.*, p. 6.

477 Young People and Gambling, 2008.



The mechanisms by which gambling becomes socially acceptable, and the similarity of those mechanisms with those which encourage alcohol consumption, are described thus:

*Young people begin gambling for purely innocent reasons, often at a very early age and with the endorsement of their parents and family. Afternoon poker games, sports betting and participation in sweepstakes, 50-50 drawings and casino nights provide a stamp of approval. Like with alcohol and drugs, young people see people they respect engaged in these activities and deem them to be acceptable. When an opportunity to gamble presents itself, they are often more open and accepting of it. Most legal gambling is illegal for those under the age of 18. But finding adults to help them gamble, or finding others willing to break the law, is not difficult for the problem gambler. Adults buy lottery tickets for young people for the promise of a piece of the winnings. Groups of young people bet on the outcome of major sports events, and even school sports. Card games for money can take place almost anywhere. Bookies don't ask for identification or report the winnings of their clients.*<sup>478</sup>

As for the impact of gambling on the behaviour of young people, we find that:

*As with adults, youth gambling addiction can negatively impact every aspect of life, from learning and school performance, to mental and physical health. It can lead to criminal and other anti-social behaviour. Studies have found that some young problem gamblers are also fighting alcohol and drug addictions.*<sup>479</sup>

Although the problem of addiction to intoxicating substances and gambling is in itself a serious physical, psychological, social and economic problem, this problem intensifies in relation to young people. The problem is dealt with in the Institute of Alcohol Studies 2007 report as follows:

*There is a partial merging of the alcohol and drug scenes in the context of youth culture, and drinking more heavily is associated with the use of cannabis, parental encouragement to drink, spending more time with friends who drink, school exclusion, and being in trouble with teachers.*<sup>480</sup>

The Institute of Alcohol Studies report indicates that there is a wide

478 *ibid.*

479 *ibid.*

480 *ibid.*

range of factors that have a bearing on whether and when young people engage in hazardous tobacco, alcohol or other drug use, and whether this then results in serious problems. These indicators are useful here because they reveal the circumstances that lead young people to fall into addiction to alcohol or any other form of drug. The report also shows how alcohol addiction leads young people into a cycle of further drug addiction and negative consequences:

*Use of tobacco and alcohol is first seen among a small number of children under 13, many of whom have other pre-existing disadvantages such as early family adversity, parental drug use and low mental ability or poor academic performance. The typical picture of a teenager at risk of hazardous drug use is someone with a relatively problematic family background associating with other risk-taking peers. All forms of drug use among teenagers are more common among (but by no means restricted to) individuals for whom one or more of the following factors are present: Drug use by parents or older siblings; family conflict or poor and inconsistent parenting; truancy and other forms of delinquency; pre-existing behavioural problems; low parental supervision; living with a single or step-parent. ... All forms of hazardous and seriously problematic drug use become increasingly related to socio-economic disadvantage with increasing age. This is especially so with drug injecting and the use of heroin, crack cocaine, amphetamines and benzodiazepines. In some areas, problem drug use has become an inescapable part of community life.*<sup>481</sup>

The above extracts show very clearly the extent of the social and economic damage that is now resulting from the use of intoxicants and gambling services. For the output of these industries to be seen as a positive contribution to the economy is highly questionable, even from a purely statistical viewpoint. The fact that shari'ah prohibits these and many other activities that are nowadays commonplace, has major implications for the allocation of resources in a modern economy. It is quite likely that many shortages of essential services such as housing and healthcare might not exist if resources were to be devoted to beneficial ends in place of harmful ones.

All of the above supports the Islamic position that Allah (s.w.t.) prohibits only what is harmful for His creation. If we consider that the severity of the punishment for breaking such prohibitions is in proportion to their

<sup>481</sup> Institute of Alcohol Studies, *op. cit.*, pp. 4-5.



evil consequences, then the evils of usury are surely greater than those which flow from gambling or the consumption of alcohol. Imam Mālik famously found no sin greater in the Qur'ān than the practice of ribā.

Also of much importance to our conclusion, is the process by which alcohol consumption and gambling were prohibited in the Islamic tradition. For those who wish to reform the financial system, it should be clear that the members of any society must understand the need for change, and should believe in the proposed solution, if reform is to be successful. This is certainly the case for a proposal as substantial as the prohibition of usury. Neither shock therapy nor gradual legislation is likely to be successful without buy-in from those whose lives will be affected by the proposed changes. The issue then, is one of combining correct beliefs with a technical understanding of the problems that face us. It is in the hope that such a combination can be achieved in the near future, that I conclude this work.

## 8 GLOSSARY

'Arāyā: A form of exempt usury transaction.

Al-Ma'na al-Istilāhī: Specific Islamic terminology.

Al-Ma'na al-Lughawī: The linguistic meaning.

'Adl: Justice, fairness.

Amānah: An item kept with somebody in trust.

Amīr al-Mu'mnūn: The leader of The Believers.

'Arafāt: A mountain in Makkah which Muslims visit as part of Hajj.

Arādi: Lands.

Athmān bi'l-Khilqah: Price by nature.

Athmān bi'l-Istilāh: Price by consent.

'Aqidah: Literally means belief. In Islamic terminology, it means articles of faith. There are six articles of faith: 1) Belief in Allah; 2) Belief in His "mala'ika" (angels); 3) Belief in His revealed Books; 4) Belief in His "rusul" (messengers); 5) Belief in the Day of Judgement; 6) Belief in Fate and Divine Decree, all of it, both the good and the bad.

Āyah (pl. Āyāt): A verse of Qur'ān.

Azīlām: Wooden stick used to determine an issue randomly.

Bay'ah: General consent.

Bay' al-Ajal (mu'ajjal): Sale against deferred payment either in lump sum or in instalments.

Bay' an-Naqd: Exchanging money for goods instantly.

Bay' as-Salam or (Bay' as-Salaf): Forward purchasing.

Bay'at al-Saqifah: Consent to Abu Bakr as the Prophet's (s.a.w.) successor at a place called Thaqīfat Bani Rabī'ah.

Dāniq: Copper money (one sixth of a dirham).

Dayn: Debt.

- Dhahab:** Gold.
- Dīn:** Religion.
- Dīn Allah:** The religion of Allah.
- Dīn al-Malik:** The religion of the king.
- Dinār:** Currency made out of gold.
- Dirham:** Currency made out of silver.
- ‘Eid:** Feast.
- ‘Eid al-Fiṭr:** Muslim feast after the holy month of Ramadhān.
- Faqīh (pl. Fuqahā’):** Scholar of Islamic jurisprudence.
- Fatwā (pl. Fatāwa):** Religious ruling by Muslim scholars regarding a certain issue.
- Fiqḍah:** Silver.
- Fiqh:** Islamic jurisprudence.
- Fiqh az-Zakāh:** The Islamic jurisprudence of Zakāh (charity).
- Fulūs:** Copper currency.
- Fulūs al-Rā’ijah:** Money by consent.
- Gharar:** Deception.
- Ghunm:** The value gained.
- Ghurm:** The value lost.
- Ḥadīth (pl. Ahādīth):** Traditions relating to the deeds and utterances of the Prophet (s.a.w.) as recounted by his companions.
- Ḥadīth Ṣaḥīḥ:** A higher degree of ḥadīth authenticity, normally narrated in Ṣaḥīḥ al-Bukhari and/or Ṣaḥīḥ Muslim.
- Haywān:** Animal.
- Hajj:** The pilgrimage to Makkah that takes place once a year, and that is binding on all Muslims to undertake once in a life-time if they can afford to do so.
- Ḥalāl:** An act that is it permissible to do, or a substance or thing that it is permissible to consume in Islam.

- Ḥaq:** Truth.
- Ḥarām:** An act that it is forbidden to do, or substance or thing that it is forbidden to consume in Islam.
- Hawl:** A lunar year.
- Hijriah:** The Islamic lunar calendar.
- Husn al-Qadā’:** Repaying a debt in a good manner.
- Ihsān:** Benevolence; an attitude which is more than just.
- Ihtikār:** Monopoly.
- Ijtihād:** Efforts undertaken by a scholar or a group of scholars to discover the Islamic point of view on one or more issues by applying knowledge of the Qur’ān and the sunnah.
- ‘Ilah:** The *raison d’être* of a certain injunction (in the original sources of *shari’ah*) which can provide a justification for assimilating a derived case with a basic case in the process of *qiyās*.
- Imra’ah:** A woman.
- Jamād:** An inorganic body, mineral.
- Ka’bah:** The Holy House of Allah (s.w.t.) in Makkah.
- Khalifat al-Rasūl:** The successor of the Prophet of Allah (s.w.t.).
- Khaghid:** Fiduciary fiat money.
- Khalīfah:** An innate characteristic of human beings in which Allah has placed certain responsibilities upon them, both towards Himself and the rest of humanity.
- Khamr:** Intoxicant.
- Kanz:** Hoarding.
- Mabāni:** Buildings.
- Maysir:** Gambling.
- Maqasid al-Shari’ah:** The main objectives of Islamic Law, which are: the protection of reason, life, religion, money and lineage.
- Manqūl:** Portable goods.
- Muqarabah (or Muqaradah or Qirāḍ):** A profit and loss sharin-



contract in which one party provides capital and the other party manages the enterprise. In case of loss, the supplier of capital bears the financial loss while the agent-partner fails to achieve a return on his labour. In case of profit, both parties share it in agreed proportions.

**Mufattir:** Any substance that may cause a state of being temporarily inactive mentally and/or physically and that normally is addictive.

**Mulamasa:** To buy a garment, for example, merely by touching it, but without looking at it.

**Munabadha:** To sell one's garment by casting it to the buyer not allowing him to examine or see it.

**Muqāyadah:** Barter trading.

**Murābaha:** Selling an item by its cost price plus an agreed profit.

**Muthamman:** Priced items or goods.

**Nabāt:** Plants.

**Nashīd:** Religious song.

**Nisā':** Women.

**Nisāb:** Threshold.

**Qard:** Loan.

**Qīrāt:** Half a Daniq (see ad-Daniq).

**Qiyās:** The process of forming religious judgements on the basis of analogical deduction from original sources of Islamic sharī'ah.

**Qur'ān:** The "Recitation", also called "The Discriminator (between truth and falsehood)" (al-Furqān). It is believed to be the final revelation of Allah (s.w.t.) to mankind and jinns. Allah (s.w.t.) decreed that it is He who will preserve the Qur'ān from any deletion or addition or alteration until the Day of Resurrection. It is generally understood that it is a book meant for the Muslims alone. In fact, it is a book for all mankind and jinns, which they should follow until the Day of Judgment, but it has been accepted only by those who have submitted their will (the Muslims) to Allah (s.w.t.). The Qur'ān was revealed to the Prophet Muhammad (s.a.w.) through Angel Gabriel over a period of 23 years. It is considered to be the miracle of the

Last Messenger since he could neither read nor write and had never received any formal education.

**Quraysh:** A Makkian tribe from which the Prophet (s.a.w.) descended.

**Rahn:** Pawn or use of an item as collateral.

**Ribā:** Interest or usury.

**Ribā al-Buyū':** Barter usury.

**Ribā al-Fadl:** Quality preference usury.

**Ribā al-Nasī'ah:** Fund usury (also known as Ribā al-Qurūd).

**Ribā al-Nisā':** Deferred payment usury.

**Rijs:** Bad things; bad deed or action.

**Sā':** A volume of measurement.

**Ṣadaqah (pl. Ṣadaqāt):** Voluntary or spontaneous almsgiving.

**Sakar:** A substance formulated for the purpose of intoxication.

**Ṣalāh:** Pray

**Ṣarf:** Currency exchange.

**s.a.w.:** short form of "sallallahu alayhi wasallam", meaning "peace and blessings upon him".

**Sharī'ah:** Islamic law as ordained by Allah (s.w.t.). It means literally a set of laws and regulations. The sharī'ah is the legal and social modality of a people based on revelation of their prophet. The last sharī'ah in history is that of Islam. It abrogates all previous sharī'ah. By being the last it is applicable to the whole human race wherever they are.

**Shūrā:** Consultation.

**Ṣafaja:** Bill of exchange, a mechanism of money transfer

**Ṣūrah (pl. suwar):** A chapter of Qur'ān.

**s.w.t.:** short form of "subhānahu wa ta'āla", meaning "may He be glorified and exalted".

**Tafakkur:** Ostentation.

**Tafsīr:** Interpretation of the meaning of the Qur'ān (Exegesis).

contract in which one party provides capital and the other party manages the enterprise. In case of loss, the supplier of capital bears the financial loss while the agent-partner fails to achieve a return on his labour. In case of profit, both parties share it in agreed proportions.

**Mufattir:** Any substance that may cause a state of being temporarily inactive mentally and/or physically and that normally is addictive.

**Mulamasa:** To buy a garment, for example, merely by touching it, but without looking at it.

**Munabadha:** To sell one's garment by casting it to the buyer not allowing him to examine or see it.

**Muqāyadah:** Barter trading.

**Murābaha:** Selling an item by its cost price plus an agreed profit.

**Muthamman:** Priced items or goods.

**Nabāt:** Plants.

**Nashīd:** Religious song.

**Nisā':** Women.

**Nisāb:** Threshold.

**Qarḍ:** Loan.

**Qirāt:** Half a Daniq (see ad-Daniq).

**Qiyās:** The process of forming religious judgements on the basis of analogical deduction from original sources of Islamic sharī'ah.

**Qur'ān:** The "Recitation", also called "The Discriminator (between truth and falsehood)" (al-Furqān). It is believed to be the final revelation of Allah (s.w.t.) to mankind and jinns. Allah (s.w.t.) decreed that it is He who will preserve the Qur'ān from any deletion or addition or alteration until the Day of Resurrection. It is generally understood that it is a book meant for the Muslims alone. In fact, it is a book for all mankind and jinns, which they should follow until the Day of Judgment, but it has been accepted only by those who have submitted their will (the Muslims) to Allah (s.w.t.). The Qur'ān was revealed to the Prophet Muhammad (s.a.w.) through Angel Gabriel over a period of 23 years. It is considered to be the miracle of the

Last Messenger since he could neither read nor write and had never received any formal education.

**Quraysh:** A Makkan tribe from which the Prophet (s.a.w.) descended.

**Rahn:** Pawn or use of an item as collateral.

**Ribā:** Interest or usury.

**Ribā al-Buyū':** Barter usury.

**Ribā al-Faḍl:** Quality preference usury.

**Ribā al-Nasī'ah:** Fund usury (also known as **Ribā al-Qurūḍ**).

**Ribā al-Nisā':** Deferred payment usury.

**Rijs:** Bad things; bad deed or action.

**Sā':** A volume of measurement.

**Ṣadaqah (pl. Ṣadaqāt):** Voluntary or spontaneous almsgiving.

**Sakar:** A substance formulated for the purpose of intoxication.

**Salāh:** Pray

**Ṣarf:** Currency exchange.

**s.a.w.:** short form of "sallallahu alayhi wasallam", meaning "peace and blessings upon him".

**Sharī'ah:** Islamic law as ordained by Allah (s.w.t.). It means literally a set of laws and regulations. The sharī'ah is the legal and social modality of a people based on revelation of their prophet. The last sharī'ah in history is that of Islam. It abrogates all previous sharī'ah. By being the last it is applicable to the whole human race wherever they are.

**Shūrā:** Consultation.

**Suḥaja:** Bill of exchange, a mechanism of money transfer

**Sūrah (pl. suwar):** A chapter of Qur'ān.

**s.w.t.:** short form of "subhānahu wa ta'āla", meaning "may He be glorified and exalted".

**Tafakkur:** Ostentation.

**Tafsir:** Interpretation of the meaning of the Qur'ān (Exegesis).



**Takāful:** Co-operation to relieve disaster occurring to a member of the society or a financial product to provide an amount of money in a disaster.

**Tawarruq:** Purchasing an item with the price paid in future instalments, not for the purpose of using the item, but in order to sell it and take its price immediately. The main objective of at-Tawarruq is to obtain cash money, and is not the need of the item purchased.

**Thaman:** Price.

**Thamaniyya:** The element which makes an item accepted as money (which could be translated as 'priceness').

**Ummah:** Nation.

**Usūl al-fiqh:** The science which describes the rules relating to the extraction of sharī'ah rulings from the Quran and the sunnah.

**Waraq:** Paper.

**Wariq:** An Arabic word for silver currency.

**Wasaq (pl. awsaq):** A unit of measurement.

**Wathiqat al-Madinah:** The social contract that the Prophet Muhammad (s.a.w.) made between the citizens of al-Madīnah and the immigrants from Makkah.

**Zakāh:** Charity.

**Zakāt al-Fiṭr:** A type of zakāh (personal zakāh).

**Zakāt al-Māl:** A type of zakāh (wealth zakāh).

**Zīna:** Desire for Embellishment.

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